

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE
COMMONWEALTH OF KENTUCKY

PUBLIC HEARING HAD ON THE 16th DAY OF OCTOBER, 2000, IN
LOUISVILLE, KENTUCKY

ADMINISTRATIVE CASE NO. 384

BEFORE THE PUBLIC SERVICE COMMISSION, MARTIN J.
HUELSMANN, CHAIRMAN, GARRY GILLIS, COMMISSIONER, AND
EDWARD HOMES, VICE-CHAIRMAN.

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1 MR. HUELSMANN: Thank you all for coming.
2 This is the Public Service Commission's Administrative
3 Case 384. We're in Louisville, Kentucky. I'm Marty
4 Huelsmann, I'm chairman of the commission. To my
5 immediate left is the vice chair of the commission Ed
6 Holmes. Commissioner Gillis could not be here today.
7 This is a formal hearing before the
8 commission to investigate the rise of natural gas
9 prices in the United States and in particular
10 Kentucky. We opened this case to investigate the
11 increase as well as to investigate the availability of
12 supplies and the procurement of gas by our five major
13 natural gas distribution companies.
14 We intend to look in the course of recent
15 prices increases the availability of supply for the
16 winter in the future and look how gas companies are
17 providing information to help consumers, low-income
18 consumer assistance programs, and disconnect policies.
19 In short, this is a fact-finding case in
20 which we want to hear from all interested parties.
21 The PSC wants to thank Secretary Viola Miller of the
22 Cabinet for Families and Children, Secretary James
23 Bickford of the Natural Resource Environmental
24 Protection Cabinet, and Secretary Ron McCloud from the
25 Public Protection Cabinet of which we belong.

1 These two cabinets are also deeply concerned
2 about the increase in prices, and we want to thank
3 them in advance of their presenting testimony here
4 today.

5 We're performing an experiment with today's
6 hearing as well as hearings in the past. The
7 gentleman who is speaking into that thing to my left
8 in the white jacket is Allen McClung. He's a
9 certified court reporter and will be doing a
10 transcript of this hearing. That transcript will be
11 posted on our website a week from today.

12 So anybody that wants to get a copy of what
13 was said here can visit our website. And for those
14 who don't know that website number is
15 www.psc.state.ky.us. The hearings for the Lexington
16 as well as London are presently on the website and
17 copies may be gotten if you'd like.

18 The gentleman with the video camera is Adam
19 Rabinowitz and he is doing what they call streaming
20 digital video. So if you want to watch a copy of this
21 hearing it will be posted on the website for you to
22 watch a week from today.

23 And we hope this experiment is worthwhile to
24 the citizens of the commonwealth as well as a cost
25 savings.

1 We want to introduce and we're going to
2 perform a hearing before us today and we have to
3 comply with certain legal things, so those have been
4 posted out there. We're going to follow this
5 procedure. And with those welcoming remarks, I
6 believe it's important that we introduce the people
7 who are going to be presenting this matter.

8 I'll turn to my left and this is the staff
9 from the Public Service Commission. Ms. Mitchell,
10 McGee would you twp introduce yourself?

11 MS. MITCHELL: Anita Mitchell.

12 MS. MCGEE: Dawn McGee.

13 MR. HUELSMANN: And the people straight
14 across from me are the two interveners who have
15 intervened in the case as well as the attorney for the
16 LG&E which is the main gas company which we're
17 concerned about here in Louisville. Ms. Chevront?

18 MS. CHEVRONT: Ann Louis Chevront, Office
19 of the Attorney General.

20 MS. RASKIN: Carol Raskin representing Metro
21 Human Needs Alliance and the people at POWER.

22 MR. BROOKS: And Douglas Brooks appearing on
23 behalf of Louisville Gas and Electric Company.

24 MR. HUELSMANN: And at this time we're going
25 to have opening remarks by LG&E. And Mr. Brooks, I

1 believe, who is going to do that for you?

2 MR. BROOKS: Mr. Chairman, Louisville Gas &
3 Electric Company has a panel of three witnesses who
4 will be participating and making the presentation and
5 then answering questions, and I'll turn the floor over
6 to Mr. Willhite at this point.

7 MR. HUELSMANN: Mr. Willhite, I think it's
8 important that the four of you that will be giving
9 testimony today that be sworn at this point. And what
10 we'll do is we'll swear you in as a group. And then
11 when they ask questions of you, any of the interveners
12 or the PSC staff, if you would mention who you are and
13 then answer the question and we can have that
14 available for transcription. So if you all would
15 rise, anybody that's going to say anything.

16 (WITNESSES SWORN)

17 MR. HUELSMANN: Go ahead, Mr. Brooks.

18 MR. BROOKS: Mr. Chairman, I'd like to turn
19 the floor over to Mr. Willhite and he will introduce
20 the other members of the panel for the company's
21 presentation.

22 MR. WILLHITE: Thank you Chairman Huelsmann
23 and Commissioner Holmes for convening this
24 administrative proceeding and allowing the parties to
25 participate.

1 We'd like to present a brief statement
2 before beginning the question period. Gary Blake to
3 my right, immediate right, and Clay Murphy and I will
4 overview LG&E's rates as compared to others in the
5 commonwealth and the nation, discuss factors
6 influencing gas prices, our supply situation, and
7 policies for procurement, and how we will continue to
8 work with our customers during this upcoming heating
9 season and beyond.

10 For the court reporter, my name is Ronald L.
11 Willhite, Director of Rates and Regulatory Affairs,
12 Louisville Gas & Electric Company, 220 West Main
13 Street, Louisville, Kentucky. I'll ask Mr. Murphy and
14 Mr. Blake to introduce themselves when they -- before
15 they speak.

16 The graph shown on the screen compares
17 LG&E's gas prices to average residential customers
18 both in the commonwealth and nation wide for the
19 period from 1985 to May of 2000. May of 2000 is the
20 last available period when all this data is available.

21 LG&E is the bottom line on the graph, the
22 Kentucky average is the middle line, and the top line
23 is the nation average. As you can see our prices have
24 remained consistently below prices paid on average by
25 customers. And even with the base rate increase you

1 recently approved, our rates will continue to remain
2 below others on average.

3 The next graph shows a composition of a
4 typical electric -- or a typical residential gas bill
5 following our last base increase in 1991 and the
6 typical bills reflecting costs during the last year.

7 The lower two components on each bar
8 represent the portion of the customer's bill that
9 covers LG&E's costs for delivering gas. The customer
10 charge at the very bottom portion of the bar and the
11 distribution cost charge just above the customer
12 charge. It's these two rate components that you
13 regulate in your entirety.

14 By and far the largest component of a
15 customer's bill is the gas supply clause, which is the
16 purpose of this administrative proceeding. Gas supply
17 includes a commodity charge and the transportation
18 cost that we pay to have the gas delivered to our
19 system.

20 The wholesale gas cost is regulated by the
21 marketplace, and the transportation costs are
22 regulated by the Federal Energy and Regulatory
23 Commission. It's this significant portion of the bill
24 that is the topic of this administrative proceeding.

25 Just to point out that everything is not

1 increasing, this next chart is for our electric rates.
2 About 90 percent of the customers Louisville Gas &
3 Electric consume both electric and gas service from
4 the company. And covering the same time period from
5 91/92 to present our electric rates for typical
6 residential customer have gone down approximately nine
7 percent.

8 Now I'll ask Mr. Murphy if he would continue
9 and discuss the supply situation and procurement
10 policies.

11 MR. MURPHY: My name is Clay Murphy, I'm
12 Director of Management, Planning and Supply. And as
13 Mr. Willhite pointed out, we're here because of the
14 very significant increases in natural gas prices over
15 the past year.

16 This is not a phenomenon that's unique to
17 LG&E, it's something that every gas distribution and
18 gas buyer across the nation has experienced. And it
19 is, indeed, the result of our national energy policy,
20 which has dictated that these prices not be regulated,
21 particularly not price regulated.

22 If you go back over the past 20 years our
23 federal energy police has been to deregulate natural
24 gas prices. That was the result of some of the supply
25 shortages that we experienced in the mid to late '70s.

1 It was felt and is felt that price deregulation will
2 enable market forces to come to bear, and as prices
3 increase it would also increase the amount of natural
4 gas being brought to the marketplace; as prices would
5 decrease, it would decrease the amount of natural gas
6 explored for or discovered.

7 As of 1993, natural gas prices are no longer
8 subject to any type of price regulation. And that was
9 a result of the Natural Gas Wellhead Decontrol Act.

10 I have on this chart here six factors that
11 are important influencing prices. The first factor is
12 just increased consumption, increased consumption by
13 all sectors of gas consumers in the United States. In
14 1987 compared to 1997 we consumed 27 percent more of
15 natural gas in that ten-year period.

16 In the same time one of the leading causes
17 for increases in natural gas consumption has been gas
18 used by electric generation. Some electric generators
19 use coal, others use gas; but approximately one-fifth
20 of the gas consumed in the United States is used in
21 the production of electricity.

22 In that same period, that 1987 to 1997
23 period when gas supplies or gas consumption was
24 increasing by 27 percent, gas production only
25 increased by 17 percent. So production has not kept

1 pace with consumption.

2 One of the ways in which that shortfall has
3 been made up has been through the importation of
4 natural gas. Right now about 14 percent of all the
5 natural gas in the United States is imported from
6 Canada. There is not adequate infrastructure in place
7 now to increase those imports. There are developing
8 infrastructure for pipelines to move gas into the
9 United States.

10 Another factor that is important in driving
11 up natural gas prices has been the lower than historic
12 inventories of natural gas. As you know, LG&E has
13 significant natural gas storage facilities. We have
14 natural gas -- we'll have enough natural gas in
15 storage to make sure that we can meet our loads this
16 winter.

17 However, many storage operators across the
18 United States have not completed their storage
19 injections and historically, we're actually running
20 about 90 percent of where we are over typical levels.
21 So storage levels aren't up to historic levels.

22 The last factor that is perhaps the wildcard
23 in things that might influence natural gas prices is
24 weather. A warmer than normal winter this year would
25 probably see prices come off. A colder normal than

1 winter we'll probably see prices come up. They will
2 rise as a result of increased demand.

3 The federal government has just come out
4 with their weather prediction for this year, and they
5 predicted a "normal" winter. In other words, a
6 typical winter based on the last 30 year averages.

7 As Mr. Willhite pointed out, our gas cost
8 component is of two different pieces. The bottom
9 portion there, the red line, is the actual commodity
10 price in the production area. And the blue line is
11 the total. The difference being the transportation
12 piece; that transportation piece is regulated by the
13 federal government. The part that tends to push to
14 overall average price up has been the wellhead price,
15 the price of the commodity itself, and that is the
16 portion that's not subject to regulation on either the
17 state or the federal level.

18 We use three important tools to make sure
19 that we have adequate gas supplies on hand. We have
20 contracts with natural gas suppliers, we have
21 transportation capacity on interstate pipelines, and
22 we use our underground storage.

23 We buy natural gas through a competitive
24 bidding process. We solicit bids from many suppliers
25 and we choose the supplier who has the lowest price

1 compatible with reliable service. We also manage our
2 procurement of natural gas in such a way that we make
3 every effort to buy gas when the price is lowest and
4 to avoid purchases to the extent that we can when
5 prices are higher. Obviously, in the winter time
6 customers need gas, we have to buy the gas for the
7 price that is prevailing in the marketplace.

8 We also have pipeline transportation
9 capacity. That pipeline transportation capacity is on
10 two interstate pipelines. One is called Texas Gas
11 Transmission and the other's called Tennessee Gas
12 Pipeline. We leverage our position on those two
13 pipelines to do two things. One is to buy gas from
14 the sources on those pipelines that are cheapest. If
15 the gas on Tennessee is cheapest we buy as much gas as
16 we can from Tennessee. Conversely, if the gas on
17 Texas Gas is cheapest we buy as much as we can from
18 Texas Gas -- or on Texas Gas.

19 We also leverage our position to try to
20 lower to the extent we can, through discounting or
21 whatever other practices we can enter into, to
22 minimize our charges from those two pipelines.

23 The third tool that we have to meet our
24 customer's requirements is our underground gas
25 storage. Our underground storage makes us a little

1 different than most local distribution companies.
2 Sixty percent of our peak day sales, in other words,
3 the coldest -- some of the coldest days of the year,
4 60 percent of our gas will come out of our own
5 storage. We will use that gas in storage to avoid
6 more expensive pipeline transportation capacity. And
7 that underground storage helps us save our customers
8 some significant dollars, about 15 million dollars a
9 year is the amount.

10 So just in conclusion, we use these tools to
11 buy our gas. We believe we're going to have adequate
12 gas supplies under contract for this winter. Our
13 storage is going to be full. We're prepared to meet a
14 designed winter. We have contracts in place and we
15 don't foresee any problem in meeting our service
16 requirements.

17 And now Mr. Blake is going to talk about
18 customer issues.

19 MR. BLAKE: Thank you, Clay. I'm Gary
20 Blake, Vice President of Retail Service of LG&E. My
21 office is in Lexington at One Quality Street,
22 Lexington, Kentucky 40507.

23 LG&E is a nationally recognized customer
24 service performer. And we earned that position by
25 understanding our customer's needs and delivering on

1 those needs. For that reason we see that the issue
2 that we're talking about tonight is one that has great
3 significance to our customers and to us as a company
4 as customer satisfaction is very important to us.

5 Things that are going on, we're looking at
6 annual winter assistance programs and we are
7 proactively streamlining the administrative
8 perspectives of those programs as well as looking at
9 enhanced funding and communications for these programs
10 that we'll list here now.

11 The programs offered for winter assistance
12 are LiHEAP, which stands for Low-Income Heating Energy
13 Assistance Program. That is a federally funded and
14 state administered program that is an annual program.
15 It will be administered, as in years past, by
16 Community Action here in Jefferson County.

17 Winter Help. Winter Help is a community
18 funded program. It's one that has existed since 1983
19 here in Jefferson County. The funds that Winter Help
20 have to contribute are funds that come from consumers
21 within Jefferson County. It's a fund that customers
22 can, by including additional payment, whatever kind of
23 contribution that they want to make with their monthly
24 gas and electric bill, they can contribute to this
25 fund that goes towards helping customers who are

1 having trouble with winter heating bills. LG&E does
2 collect those funds, transfers those funds to the
3 group that administers Winter Help. We do that at no
4 cost. We bear the burden of collecting and a
5 transfer.

6 In addition to that though, and more
7 important, we are contributors to Winter Help. In the
8 past we've always had a matching gift component where
9 when a customer contributes we match some portion of
10 it. In response to what we're -- this issue before us
11 and thinking proactively, for this winter we have
12 doubled the contribution that we will match. We are
13 matching dollar for dollar what the community
14 contributes to Winter Help. And that is -- that's a
15 strong message that we'll talk a little bit more about
16 as far as how we feel like we can position ourselves
17 to help those who are going to be impacted the
18 greatest by this gas cost increase.

19 Project Warm is a Jefferson County non-
20 profit organization that LG&E is joining with this
21 winter to winterize 300 homes in the Louisville area.
22 LG&E participates as a sponsor with funding. And then
23 in addition to that we pull together employee teams
24 that go out and actually do the work, winterizing the
25 homes.

1 Credit Counselor. We've created a position
2 one of the things that -- a little bit further down on
3 our list, as we've been working with our low-income
4 support agencies, those agencies that get the funding
5 that help the customers in need, one of the things
6 that came up in our discussions was we needed to -- it
7 would be beneficial if we had a central contact point
8 for communications from the agencies to the company
9 and even within the company as far agency program
10 changes and those kinds of things so that our people
11 that are manning the telephones or peopling the
12 telephones would be advised as to the most current
13 program changes that are offered in our area. So this
14 is a -- it's a full-time position that we're not
15 hiring for at LG&E.

16 Our equal monthly payment plan or budget
17 billing is a program that is offered to customers. It
18 does smooth out the impacts of winter heating bills
19 over -- throughout the year. And that is a program
20 that we promote regularly and have increased
21 promotions on.

22 Agency Alliance. One of the things we've
23 identified that we really need to work on for this
24 upcoming winter was our communication and working
25 relationship with the agencies that provide the

1 assistant to low-income consumers. And we've done
2 that through several meetings talking about
3 communications, talking about programs, talking about
4 how we can streamline the way we work together and the
5 way we handle getting customers in need attached to or
6 partied up with an agency that can help them, can
7 provide them assistance.

8 In addition to that we talk about -- we talk
9 about flexibility in credit arrangements, the kind --
10 sorting out the kinds of things that would benefit
11 customers the most.

12 These are things that are, especially winter
13 programs -- there are other programs that are year
14 round programs. The off seasons assistance plan,
15 ASAP, is a plan that is a year round program that does
16 help low-income consumers who have needs to help in
17 budgeting in getting payments made throughout the
18 year, as well as other church ministries and quite a
19 few other agencies that provide help to those in need.

20 We are sensitive to the impact of these
21 increasing costs, especially on our fixed and our low-
22 income customers. And historically we have always
23 worked with our customers through their individual
24 situations when needs arise for partial payment plan,
25 and that will continue to be the case.

1 In closing, just three bullets I would like
2 to stress on the company's -- from the company's
3 perspective. First of all, and to reiterate what has
4 already been said, we recognize the significance of
5 this issue. And we are -- we do feel like proactively
6 there are a lot of things that can be done. We truly
7 appreciate the commission's vision in having this
8 public hearing, because this is a great opportunity to
9 raise community awareness. It is a national issue
10 that has community impacts.

11 One of the things that we feel like we
12 really need to focus on is that there is opportunity
13 for public and private sectors to come together with
14 additional and pull together additional support for
15 those that are least able to bear the increase cost
16 this winter.

17 And finally, I would like to say that we
18 always encourage customers to contact us promptly
19 whenever they have payment problems. We are always
20 seeking to reach reasonable, mutually agreeable
21 payment arrangements with customers. That's to the
22 benefit of the customer and it's the benefit of the
23 company. Thank you.

24 MR. HUESLMANN: Mr. Brooks, do you have
25 anything else?

1 MR. BROOKS: That's all LG&E has.

2 MR. HUESLMANN: We're now going to turn it
3 over to the attorneys to ask questions. Just so the
4 public knows that we have asked them what we call data
5 requests and all the companies have responded. So
6 these are supplemental to the written documentation
7 that they've already provided for us in the past.

8 Ms. Mitchell?

9 MS. MITCHELL: Thank you. Good evening. In
10 item two of LG&E's response to the Commission's Data
11 Request of September 12th, the item provides an
12 assessment of LG&E's gas supplies and its ability to
13 meet the demands of its customers this winter. Is
14 there a worse case scenario under which LG&E might not
15 be able to meet its customer's demand for natural gas
16 and would such a scenario be different for this winter
17 compared to any other winter?

18 MR. MURPHY: My name's Clay Murphy. I'll be
19 answering that question. Our supply risks are the
20 same this winter as any other winter. They're
21 unrelated to the increase in price. And there are
22 conditions under which -- but the would be emergency
23 conditions, they would be related to freeze-offs of
24 supplies or problems on the interstate pipeline, some
25 type of emergency problem. But those problems would

1 be unrelated to the price. And we have not had a
2 situation in the past which has endangered our supply
3 to customers. And I don't foresee one this coming
4 winter that would endanger those customers again.

5 MS. MITCHELL: Have any of the marketers or
6 suppliers with whom LG&E currently contracts for
7 natural gas supplies ever fail to deliver gas supplies
8 to LG&E system?

9 MR. MURPHY: No.

10 MS. MITCHELL: Do you have any reason to
11 believe that they will this year?

12 MR. MURPHY: No.

13 MS. MITCHELL: Is LG&E aware of any
14 potential bottlenecks in the delivery system from the
15 wellhead to the city gate that might prevent the
16 delivery of adequate gas supplies?

17 MR. MURPHY: There are no bottlenecks that
18 would affect us. We use firm capacity on the
19 interstate pipelines to make sure that we have access
20 to supplies that would not be affected by a
21 bottleneck. Customers that perhaps using some
22 interruptible type of transportation may be affected,
23 but we don't believe they would affect us.

24 MS. MITCHELL: Has LG&E reviewed its
25 curtailment procedures for the coming heating system,

1 and if you have done so do you believe these
2 procedures are adequate?

3 MR. MURPHY: Yes. We review before the
4 beginning of every winter our curtailment practices.
5 They were last updated in 1996 and were approved by
6 the commission. They reflect our most current
7 services to customers.

8 We routinely remind customers prior to the
9 beginning of the heating season that are interruptible
10 that they are subject to interruption. And so we
11 believe we're -- we routinely look at those. There's
12 not an issue there.

13 MS. MITCHELL: In item four of the response
14 to the commission's data request compares customer's
15 bills in January 2000 with what those bills would have
16 been based on the rates in effect for LG&E as of
17 September 1, 2000. Based on January's average monthly
18 usage of 16.1 MCF, this comparison shows that a
19 residential customer's bill would increase from \$84 to
20 \$110. Since September 1st LG&E has received a rate
21 increase that according to our calculations will add
22 about \$7 to the \$110 January bill based on usage of
23 16.1 MCF. The gas cost component of LG&E's September
24 rates was approximately \$5.47 per MCF. LG&E has since
25 made a filing with the commission to increase the gas

1 cost component effective November 1, 2000, by
2 approximately one dollar to \$6.44 per MCF. Do you
3 agree that this will add about \$15 to that average
4 January bill bringing the total bill to \$132?

5 MR. WILLHITE: Ron Willhite responding.
6 Yes.

7 MS. MITCHELL: Item five of the responses to
8 the Commission's Data Request indicates that LG&E's
9 natural gas purchases reflect the mix of long-term and
10 short-term purchase arrangements. Can you describe
11 generally what LG&E perceives as the advantages and
12 disadvantages of long-term and short-term pricing
13 arrangements?

14 MR. MURPHY: My name is Clay Murphy. I'll
15 be answering that question. We use long-term
16 purchases generally to meet the highly variable and
17 temperature sensitive winter requirements of our
18 customers. They provide us with the reliable supplies
19 that we need to serve those customers and flexible
20 supplies.

21 We use short-term purchases typically during
22 the summer time when supply is more available. Those
23 shorter term purchases allow us to take advantage of
24 some unique pricing opportunities that let us get gas
25 at below market prices without, in any way, harming or

1 lowering our reliability.

2 And we believe that this mix between long
3 and short-term provides us with some balance and some
4 flexibility and also helps us to lower gas costs.

5 MS. MITCHELL: How does LG&E determine the
6 volumes that will purchase from each supplier?

7 MR. MURPHY: We use a software model that
8 helps us to determine under a varying number of
9 conditions the volumes that we may need. We put those
10 volumes, in one way or another, before suppliers and
11 allow them to competitively bid upon them. And when
12 we evaluate the price and the reliability of the
13 supplier we choose the supplier who has the lowest
14 price.

15 MS. MITCHELL: The response to item six of
16 the Commission's Data Request discusses many aspects
17 of performance-based regulation regarding the
18 purchasing of natural gas. Is it accurate based on
19 this response to conclude that LG&E generally favors a
20 PBR mechanism for natural gas procurement as long as
21 the mechanism is comprehensive, symmetrical, includes
22 appropriate benchmarks and does not jeopardize
23 reliability?

24 MR. MURPHY: Yes.

25 MS. MITCHELL: In the final paragraph of

1 that response it indicates that since -- LG&E
2 indicates that since the implementation of its gas
3 procurement PBR LG&E has achieved savings of 17.3
4 million through July 31st of this year. Does the 17.3
5 million represent the total savings or savings to
6 customers?

7 MR. MURPHY: The 17.3 million represents the
8 total savings before they are shared.

9 MS. MITCHELL: And what is the amount of
10 savings through the end of September?

11 MR. MURPHY: We estimate that number to be
12 19.3 million.

13 MS. MITCHELL: Again, that's the total?

14 MR. MURPHY: Yes, that's the total.

15 MR. HUELSMANN: As of the end of September?

16 MR. MURPHY: As of the end of September.

17 MR. HOLMES: Your sharing, is that 50/50?

18 MR. MURPHY: Yes, after we consider a
19 threshold. There's a threshold we have to overcome,
20 and then the sharing above that is 50/50.

21 MS. MITCHELL: What is the threshold? Do
22 you know what -- can you tell us what the threshold
23 --

24 MR. MURPHY: The threshold is based on
25 capacity release and capacity release volumes and

1 prices.

2 MR. HUELSMANN: And so that the public
3 understands it, the 50/50 share is shared how?

4 MR. MURPHY: It's shared -- the 19.3 million
5 which is -- I don't know if this was explained at the
6 beginning -- the 19.3 million is a total from November
7 of '97 through September of this year. It's the total
8 savings that we've created under our performance-
9 based rate making, and that's shared equally between
10 the shareholder and the rate payer or the customer.

11 MR. WILLHITE: If I might add to that. Ron
12 Willhite. Each year we would calculate the amount of
13 savings and then reflect the portion that is -- the
14 company's half would be reflected on the customer's
15 bills in the following year. The customer would
16 receive the full benefit during the incurrence of
17 those costs and then the company's portion would be
18 returned in the following year.

19 MS. MITCHELL: Will you provide an overview
20 of LG&E's disconnection policies and the type of
21 modified payment or partial payment plans available to
22 customers that have difficulty paying their utility
23 bills -- their gas utility bills?

24 MR. BLAKE: Gary Blake. I'll respond to
25 that. Our disconnect procedures in freezing weather

1 we do not make non-pay disconnects. So those are --
2 We do continue onsite collection. Our service techs
3 when they arrive at a residence will collect if a
4 customer has a payment to make.

5 We do make efforts to ensure that no
6 residences are left without service during freezing
7 weather when they are occupied, if there's an
8 occupant. And then each day that the disconnect
9 process -- each day disconnects are selected based on
10 an impartial process that looks at age of arrearages
11 or age of past due balance and amounts. And they're
12 selected daily based on that.

13 In response to the question about modified
14 credit arrangements, about payment arrangements for
15 customers, we have several different types. One --
16 it's probably best as we run through, we got payment
17 extensions. Those are for customers who have -- who
18 have -- just need a few days or a matter of some weeks
19 to make payment. Our arrangements are if they can pay
20 the greater of half of the past -- half of the
21 arrears, half of their bill or all of what they've got
22 that is past due, if they have past due balances, with
23 a full payment on or before the current bill's
24 disconnect date then we set up those arrangements so
25 we'll continue service with a customer.

1 Where we have a deferred payment plan, a
2 customer needs more than just a few weeks to make
3 payment, our arrangement typically are if the customer
4 pays half -- the greater of half of the past due
5 arrears or all of the 60 day and older arrears, the
6 greater of those two, then they can agree on a payment
7 arrangement schedule for full payment to be taken care
8 of in four months or less. That's the terms for what
9 we would call our typical deferred payment plan.

10 Other things that can -- other payment
11 arrangements, letter of medical need. Whenever we
12 have a customer that provides a letter from their
13 physician indicating that they do have need for
14 utility service a 30 day extension passed the
15 disconnect date is granted.

16 There's a certificate of financial need,
17 which is valid in a period of November 1 through
18 February 28th, or a certificate from a community action
19 council indicating a customer meets the financial
20 criteria, a 30-day extension is granted passed
21 disconnection date.

22 And then also during this period that we
23 talked of in the winter there's a hardship reconnect
24 program where if a customer can pay the lesser of one-
25 third of all their past dues or \$200 with an agreed

1 upon payment schedule so that full payment is achieved
2 by October 1, and in this time frame we're talking
3 about, so it would be full payment before October 1,
4 2001, is the hardship reconnect payment plan. Those
5 are the typical -- typical plans.

6 MS. MITCHELL: Thank you. Has LG&E
7 considered any tentative plans or contingency plans to
8 liberalize these disconnection policies or payment
9 plans if the increase in gas prices significantly
10 increases the number of customers experiencing payment
11 problems or facing disconnection due to failure to pay
12 their bills?

13 MR. BLAKE: Gary Blake again responding.
14 LG&E's credit practices are already flexible and they
15 do allow for accommodations for a customer's
16 individual or specific needs. The measures that we've
17 already proactively implemented are doubling the
18 WinterCare matching contributions, this hiring of a
19 credit counselor, and establishing working on agency
20 alliances, streamlining the program administration,
21 those kinds of things, and we'll continue to monitor
22 it. And should the situation require modification
23 we're going to work closely with the low-income
24 support agencies and establish the kind of necessary
25 changes that best address the specific need that the

1 customers have.

2 MS. MITCHELL: In response to item nine of
3 the Commission's Data Request discusses a universal
4 service fund as a possible means of providing
5 assistance to low-income customers. Many of the
6 Kentucky's gas and electric utilities have taken the
7 position in the past that a universal service fund can
8 only be implemented if it is authorized by the
9 Kentucky legislature. Is that LG&E's position?

10 MR. WILLHITE: Ron Willhite responding.
11 Yes, it is, Ms. Mitchell. And we note that that
12 interpretation is consistent with our reading of the
13 commission's interpretation as expressed in several of
14 the prior orders of the commission.

15 MS. MITCHELL: Does LG&E envision that a
16 universal service fund would complement the low-income
17 assistance programs currently available or that it
18 would replace those programs?

19 MR. WILLHITE: Well, I think would depend on
20 how -- what the ultimate amount might be of any
21 universal service fund program that might come into
22 place. I would think that programs like the LiHEAP
23 programs where federal funds are being provided that
24 you certainly want to continue to have those funds
25 available and distributed by the organizations who

1 have so effectively distributed those funds in the
2 past.

3 MS. MITCHELL: You spoke earlier of a budget
4 payment plan for customers, I believe. At what period
5 during the year are customers able to enroll in that
6 plan?

7 MR. BLAKE: The LG&E equal monthly payment
8 plan or budget billing plan customers can get on that
9 plan at any month during the year.

10 MS. MITCHELL: Is there -- is it a budget
11 year as established 12 months period over which it's
12 spread?

13 MR. BLAKE: It actually runs 12 months from
14 the date that they get on the program. So it's
15 dependant upon their start time.

16 MS. MITCHELL: Can you tell us what
17 percentage of LG&E's residential customers, gas
18 customers, have enrolled in your budget plan?

19 MR. BLAKE: I've got -- the numbers that
20 I've got are for total electric and gas for LG&E,
21 we've got 39,500 customers that are on an equal
22 monthly payment plan. That's about ten percent, a
23 little bit over, but about ten percent of our
24 customers that we serve. And I have no reason to
25 believe that that wouldn't hold true for our gas

1 customers. It's probably pretty typical at ten
2 percent.

3 MS. MITCHELL: Has LG&E stepped up its
4 efforts to promote its budget plan this year in light
5 of the increase in its rates due to the increase in
6 wholesale gas cost?

7 MR. BLAKE: Yes, it's one of the things that
8 we have proactively recommended as an option to help
9 customers in mitigating the impact of winter heating
10 bills. We have -- in all the press releases that have
11 been done where we have talked about the gas cost
12 issue we have -- we have admitted in that or included
13 as part of that a recommendation for customers to
14 enroll in the budget billing plan as well as to
15 conserve energy, focus on wise use.

16 We've also had some radio and TV interviews
17 that we've proactively scheduled. As we talk about
18 the gas cost we focused on budget billing. We have
19 -- our internal communications with our own employees
20 as to talking points with customers. In addition to
21 that our monthly bill stuffer, what we call our bill
22 insert that goes out with all of our -- all of our
23 billings does talk about the equal monthly budget --
24 or equal monthly payment plan as also an opportunity
25 to help mitigate those.

1 And then in addition to that we have a new
2 insert that's been worked up that will be going in, in
3 customer's bills. It focused on the benefits on the
4 equal monthly payment plan. All these are -- have
5 been stepped up significantly in light of what we're
6 looking at for this winter.

7 MS. MITCHELL: The response to item ten of
8 the Commission's September 12th Data Request indicates
9 that LG&E realizes savings of over 15 million dollars
10 annually by owning and operating its storage
11 facilities versus purchasing similar services from
12 interstate pipelines at tariff rates. Will you
13 provide the calculations that were made to arrive at
14 the amount of savings?

15 MR. MURPHY: My name is Clay Murphy. I'll
16 be answering that question. To briefly describe it,
17 we compare the cost, our cost to own and operate
18 storage. That includes things like our return,
19 depreciation, and our operating and maintenance costs.
20 We compare those costs and the volume and
21 deliverability that we can get out of storage. And I
22 mentioned before that on a peak day that's typically
23 60 percent of our peak day volume. We compare that
24 cost to achieve that volume of deliverability to
25 contracting from interstate pipelines for a similar

1 volume.

2 The actual calculations themselves were
3 submitted to the commission in its third data request,
4 item 28 of our most recent rate case, 2080. And they
5 were filed with a petition for confidential treatment
6 and the commission granted confidential treatment of
7 those calculations.

8 MS. MITCHELL: If one of the intervening
9 parties in this case wished to enter into a
10 confidentiality agreement with you would you be
11 willing to work with them and provide them the
12 calculations as well?

13 MR. BROOKS: Ms. Mitchell, on behalf of the
14 company, the company would indeed be willing to enter
15 into those agreements and make that data available in
16 that way.

17 MS. MITCHELL: Thank you. That response
18 also indicates that LG&E is not engaged in any hedging
19 activity and has no immediate plans to do so because
20 LG&E believes that such activities are speculative and
21 not consistent with its obligations to its customers.
22 Will you expand on LG&E's reasons for this belief?

23 MR. MURPHY: My name is Clay Murphy. I'll
24 be answering that one, also. I think most simply
25 hedging involves locking in or fixing the price.

1 Hedging can eliminate the volatility of gas prices to
2 the extent to which they go up and down, but hedging
3 can't guarantee that you will buy your supply at the
4 lowest price. You may indeed buy it at the highest
5 price. In essence, when you hedge you're making a
6 bet, you're placing a bet, you're taking a gambling
7 position as to whether the price is going to go up or
8 down. And the direction of the natural gas markets
9 because they're unregulated is so uncertain we're
10 unwilling to lay a bet on behalf of the customer as to
11 whether the gas price is going to go up or down. So
12 we believe it would be speculative for us to do that.
13 We think that there are -- we think that buying gas at
14 market clearing prices at the time we make the
15 purchases is the best way to keep natural gas prices
16 low.

17 In addition I would also add that because we
18 have such significant quantities of storage, our
19 storage sort of acts as a natural hedging tool. That
20 is we're buying gas all the time either in the winter
21 because we're going to resell it, in the summer
22 because we're going to put it in storage. And so that
23 ends to average out over time and bring down some of
24 the volatility and the prices themselves.

25 MS. MITCHELL: Item 11 of the LG&E's

1 response to the Commission's Data Request indicates
2 that LG&E's believes that allowing market forces to
3 work will provide the best incentives by affecting gas
4 production, customer demand, and market prices. In
5 light of this response, is it accurate to say from a
6 regulatory perspective that LG&E advocates an approach
7 that allows the wholesale natural gas market to
8 determine retail prices?

9 MR. MURPHY: I think the answer to that is
10 no. Our answer was intended to relate to wholesale
11 natural gas prices only, not to retail prices. We
12 believe that the role of the Public Service Commission
13 is still to regulate the distribution function of our
14 natural gas sales to our customers, those bottom two
15 boxes on the chart that Mr. Willhite showed us
16 earlier.

17 MS. MITCHELL: Okay, thank you. I have no
18 more questions.

19 MR. HUELSMANN: We'll now have questions by
20 intervening parties to this matter. And I believe the
21 Attorney General's Office, Ms. Chevront wants to go
22 first.

23 MS. CHEVRONT: Thank you. Ann Louis
24 Chevront with the Attorney General's Office. In your
25 question number four you were talking about -- you

1 were comparing your rate and you talked about some
2 changes in the rate. One of them was that I believe
3 earlier you had a DSM surcharge and now you have a DSM
4 credit. You just filed for a DSM program with the
5 commission?

6 MR. WILLHITE: Ron Willhite responding.
7 Yes, we did. We filed that end of last month. And
8 that filing calls for some additional demand side
9 management programs. Of course, the final outcome of
10 that will depend on the proceedings before the
11 commission and the final order of the commission.

12 MS. CHEUVRONT: So there is a possibility
13 that that credit can go back to a surcharge?

14 MR. WILLHITE: As those programs go into
15 place and depending on the success of those programs
16 that is correct.

17 MS. CHEUVRONT: As proposed, do you see the
18 surcharge being higher per MCF than it was in January,
19 last January?

20 MR. WILLHITE: I haven't made that
21 comparison. The amount of the billing which in on a
22 per 100 CCF basis, as those programs are implemented
23 it could gradually increase over time.

24 MS. CHEUVRONT: On question number five --
25 and it may be I'm not reading your chart correctly --

1 but it appears to me that you don't use very many
2 different suppliers. Am I reading that wrong?

3 MR. MURPHY: You're referring to the --

4 MS. CHEUVRONT: Question five.

5 MR. MURPHY: Well, I think the point of that
6 chart is to show -- if you look, the prior response to
7 that it lists the number of -- or it lists the
8 suppliers who we actually do purchase gas from or
9 solicit purchases from. And, again, because we award
10 the gas to the most competitive, the lowest price, we
11 may not buy significant quantities of gas from more
12 than one person. If one person comes in and offers us
13 the lowest price, after we've verified that price
14 through a competitive bidding process, we'll make --
15 we'll award that gas supply to that person because
16 they're the cheapest.

17 But I think also you're -- if you look
18 through that comparison there's usually about a dozen
19 people that we're buying gas from at any one time.

20 MS. CHEUVRONT: So on this chart you're
21 saying --

22 MR. MURPHY: You're looking at page three of
23 five? I'm sorry. Which page exactly are you looking
24 at in here?

25 MS. CHEUVRONT: Well, three of five, four of

1 five, five of five, I guess, is the next one.

2 MR. MURPHY: Well, yeah, on page three of
3 five, if I counted very quickly here, looks like we've
4 bought gas during 1999 from 14 different suppliers.

5 MS. CHEUVRONT: It also -- and like I said,
6 obviously, I may not be reading this right -- you say
7 you're buying it from the lowest price, but it looks
8 to me like -- not that there's a whole huge amount of
9 difference -- that you're getting the most gas from
10 the highest priced supplier. Am I reading that also
11 wrong?

12 MR. MURPHY: Now you're looking at which
13 chart again, or which table?

14 MS. CHEUVRONT: Four of five and five of
15 five.

16 MR. MURPHY: I think also you have to bear
17 in mind that this is not taking into account many
18 things. This is simply a statement of January through
19 April, this is who we bought from. We buy gas in some
20 cases on a daily basis.

21 So look at this little bitty fellow up here
22 we bought 42,000 from. He was pretty cheap. We
23 bought -- he was \$2.33. Unfortunately on that day
24 that's all we could afford to buy at that price.

25 We may have bought other gas at \$2 if you'll

1 look at the -- is that line 18 -- \$2.6345. That's
2 higher than the \$2.33, admittedly. But in the market
3 on that day his price of \$2.6345 was the cheapest gas
4 that we could have bought.

5 MS. CHEUVRONT: Okay.

6 MR. MURPHY: Or we would have bought it from
7 somebody else. So I think you have to look not only
8 at the absolute prices that are set forth in the
9 table, you have to realize that this is the result of
10 what we did do, not the result of what was available.
11 This was the cheapest of -- of those purchases we made
12 at that time this is the cheapest of what was
13 available. These prices changed dramatically from
14 that January through April period. So you're seeing
15 many things go on there.

16 MS. CHEUVRONT: That's what I wanted to
17 clarify. Thank you. In your response to number six
18 you talk about your PBR, and I'm not even going to
19 pretend to understand it and your explanation didn't
20 help me any earlier so --

21 MR. MURPHY: Sorry.

22 MS. CHEUVRONT: How are your benchmarks set?

23 MR. MURPHY: Our performance-base rate
24 making program has three components, and so I'm going
25 to have to talk about the benchmarks for each

1 component.

2 The first component relates to the purchase
3 or the cost of the commodity itself. Those are
4 measured against industry recognized, industry
5 established price postings. We create a basket, an
6 average in effect, of all those prices and we compare
7 our purchases to that benchmark.

8 So some of the prices are prices at the
9 first of the month, some are through the month; some
10 are, in fact, every day of the month of those
11 benchmarks. And so we create savings to the extent
12 that we can purchase underneath that benchmark, which
13 is indeed an average. So that's the first component.

14 The second component relates to the
15 transportation itself. I mentioned that we have two
16 interstate pipelines that are regulated by the federal
17 government, their price not only regulated by
18 Department of Transportation for safety reasons but
19 they're regulated by the Federal Energy Regulatory
20 Commission on price purposes.

21 The second component of our PBR mechanism
22 allows us to create savings to the extent that we can
23 either release, that is basically sell, capacity that
24 we don't use on any day or to the extent that we can
25 leverage those two pipelines against each other and

1 secure discounts from them. So that's another way we
2 create savings, by leveraging the two pipelines
3 against each other to create transportation savings.

4 And the third component is an off system
5 sales function. We may occasionally have gas under
6 contract that for whatever reason we may not require
7 for our system. It may be a warmer than normal
8 winter, for example. We always -- we design our
9 system for a colder than normal winter. There may be
10 a warmer than normal winter. There may be occasions
11 when we can sell the gas in the marketplace to
12 somebody else at higher than what we had it under
13 contract for.

14 So that is an off system sale. And that
15 also creates savings. The benchmark in that case is
16 the price of the gas to us.

17 MS. CHEUVRONT: You have a penalty phase?
18 You have penalties?

19 MR. MURPHY: Right, the sharing mechanism is
20 symmetrical, so to the extent that we create expenses
21 -- and that is we don't beat the benchmark, we
22 purchase gas at higher than those benchmarks -- we
23 absorb a portion -- that's the same 50 percent that we
24 share in -- we absorb that portion of the expenses.

25 MS. CHEUVRONT: Because of the increased

1 prices, do you see the penalty phase maybe kicking in
2 or is the way your benchmarks set up the increased
3 prices is going to be taken into consideration?

4 MR. MURPHY: Our benchmarks are based on
5 market indices, so they will move -- as I said, some
6 of the -- or a portion of the benchmark is really a
7 daily price. It moves every day. So the change in
8 the price itself doesn't have a direct bearing on
9 whether there's saving or expenses. It's your
10 performance or the company's performance against the
11 benchmark. The benchmark is a moving target.

12 MS. CHEUVRONT: So do you see any rewards
13 being -- your rewards being greater now than if the
14 prices had stayed low?

15 MR. MURPHY: No.

16 MS. CHEUVRONT: You may not be able to
17 answer this question because you said -- it's
18 concerning Winter Help, and 100 percent of what you
19 receive goes to a distributing agency. Do you know if
20 the distributing agency distributes the 100 percent or
21 are there administrative costs?

22 MR. WILLHITE: I can't answer it for sure.

23 MS. CHEUVRONT: Do you know what the
24 standards are to receive Winter Help?

25 MR. WILLHITE: Well, the Winter Help program

1 is set up for the -- so that those that we saw, the
2 LiHEAP, the federally funded program, that's kind of
3 the first -- the first hit or the place that we'd
4 recommend a customer in need would go to. And then
5 Winter Help is set up to help those who can't get help
6 through LiHEAP.

7 MS. CHEUVRONT: Do you all have late fees?

8 MR. WILLHITE: Yes.

9 MS. CHEUVRONT: Have you considered possibly
10 waiving your late fees since the prices have
11 increased?

12 MR. BLAKE: We have -- this is Gary Blake
13 -- our late fees are applied two days after the bill
14 due date. What we encourage is customers to contact
15 us and work with us before that due date. If a
16 customer can call in or come in and make arrangements
17 to make payments, that late fee won't be charged. So
18 what we want to do is encourage rather than a customer
19 getting further behind and the winter heating bill
20 continuing to grow, that we do work on it promptly.
21 And for that reason we've tended to not look at the
22 late fee.

23 MS. CHEUVRONT: Thank you. One question
24 about your budget. Do you have -- I know KU does -- a
25 recalculation every so many months so that when you

1 get towards your end of your 12 months all of the
2 sudden you don't have this huge bill?

3 MR. BLAKE: Yes. It's reviewed -- it's
4 reviewed quarterly. I think the difference when you
5 said you knew the KU billing, I think one of the
6 things that you see different is with or LG&E budget
7 plan you don't have a settle month. There's a month
8 in which all arrears plus your average 12 months are
9 looked at and then a new number calculated for the
10 next 12 months that would catch you up with your
11 current bills and your arrears.

12 MS. CHEUVRONT: I'm not in an area where
13 they have a combined company so I don't know what your
14 bill looks like. Do you just have one combined bill
15 for gas and electric?

16 MR. BLAKE: Gary Blake. Yes, one combined
17 bill.

18 MS. CHEUVRONT: If somebody can't pay all of
19 their bill and you've sounded like you're going to be
20 very helpful in working with them, how do you work
21 that on a combined bill?

22 MR. BLAKE: On a combined bill a customer
23 -- you see me referring to this red bill stuffer or
24 billing insert, and we do have copies of this material
25 that I've mentioned here on the table as you come in.

1 But the -- included in -- this piece is a piece that
2 goes out with all brown bills, what we call at LG&E
3 our brown bill or our late notice.

4 It does talk about the customer's
5 opportunity to exercise a one service option. If they
6 say, hey, I can't pay the combined bill but I want to
7 keep my electric on or I want to keep my gas on, the
8 account can be set up so that they do maintain
9 continuous gas or continuous electric service and work
10 through the arrears on the other.

11 MS. CHEUVRONT: I got in trouble at Columbia
12 asking for a prediction but I'm going to try it one
13 more time. Do you see these gas costs leveling off?

14 MR. MURPHY: My name is Clay Murphy. I
15 hopefully won't disappoint you or get you into trouble
16 anyway. When I spoke about our national energy policy
17 and supply and demand, I think that -- I won't make a
18 predication as to time, but I will say that it appears
19 to be working. What -- where we were in say April of
20 1999 we had less than 400 rigs exploring for natural
21 gas. And now we have about 800 rigs. So it doesn't
22 take long for that price message -- just as it doesn't
23 take long for us to get that price message, it doesn't
24 take long for the producer to get that price message
25 either. And he sees that his returns can be higher.

1 He's going out and drilling for natural gas.

2 Now whether that's six months or three years
3 before you see the full impact on the marketplace we
4 don't know. But I think there are signs that the
5 marketplace is working and that you will see increased
6 exploration, increased importation, increased
7 conservation, and those things all together will
8 hopefully push the price back down. Maybe not to as
9 low a level as what we've seen in the past but
10 certainly, hopefully, below where they are now.

11 MS. CHEUVRONT: So we've seen throughout the
12 hearing and you all will see again, that maybe this is
13 just an upswing of a cycle that we go through every
14 10-15 years?

15 MR. BLAKE: I certainly hope that's the
16 case. That's what -- that's the way our national
17 energy police, I believe, is designed to work.

18 MS. CHEUVRONT: No further questions --
19 wait, I might -- wait.

20 MR. HUELSMANN: We're going to need to
21 change a tape just a second.

22 (OFF THE RECORD)

23 MR. HUELSMANN: Okay, if we all could take
24 our seats we could continue our hearing. We need to
25 change that tape every 60 minutes to 75 minutes and

1 thought it was a good time to do it then.

2 Next we have for the interveners Carol
3 Raskin. I believe Carol represents -- or Ms. Raskin
4 represents the Metro Human Needs Alliance and POWER.
5 Ms. Raskin?

6 MS. RASKIN: Thank you very much, Chairman,
7 Mr. Holmes (sic). After listening -- and I think this
8 question is going to be addressed to Mr. Murphy --
9 after listening to your discussion of the gas PBR I
10 want to know -- and I apologize for my lack of my
11 usual voice -- I want to know if LG&E designed this
12 gas PBR itself.

13 MR. MURPHY: We submitted it to the
14 commission, yes, for their approval.

15 MS. RASKIN: You did design it?

16 MR. MURPHY: And the commission made some
17 changes in the PBR that we originally proposed.

18 MS. RASKIN: I won't ask whether they made
19 it more or less confusing for those of us sitting over
20 here. With respect to the gas procurement PBR, the
21 one figure I don't think I was given was the amount of
22 savings in the calendar year 2000 since January 1. Do
23 you have that?

24 MR. MURPHY: I don't --

25 MS. RASKIN: Or an estimate.

1 MR. MURPHY: I don't have that number
2 because we don't -- the PBR itself doesn't operate on
3 a calendar year, so I don't know that number off the
4 top of my head.

5 MS. RASKIN: That's my next question. What
6 year, because you did say it operated on a year, what
7 12-month period does it operate on?

8 MR. MURPHY: The 12 months ended October
9 31st. A gas year begins November 1, and ends October
10 31.

11 MR. HUELSMANN: Once again, can we say who
12 we are so that Mr. McClung can get that down.

13 MR. MURPHY: I'm sorry. Clay Murphy.

14 MS. RASKIN: And so you are just about to
15 end a savings year?

16 MR. MURPHY: Right.

17 MS. RASKIN: And there are savings? I mean,
18 I think you said there were two million in the last
19 couple of months alone.

20 MR. MURPHY: Yes.

21 MS. RASKIN: So when will those savings
22 start to flow through to the customers?

23 MR. MURPHY: Those savings flow through
24 concurrently now.

25 MS. RASKIN: Can you explain that a little

1 bit?

2 MR. MURPHY: The customer gets the full
3 advantage of the savings as we go through because the
4 way the mechanism is designed the customer gets
5 immediate advantage of the lower gas cost. We only
6 recover the gas cost. There is a -- at the end of the
7 12 month period we calculate the savings or expenses,
8 then we will put in -- if there are savings we'll put
9 in a charge, if there is expenses we will put in a
10 credit, and we will, if there's savings which need to
11 be shared with the company and the customer, we've
12 given back our -- or the customer's already gotten his
13 piece, so we need to get back the piece for the
14 company. So there's a surcharge that will go into
15 effect next year.

16 MS. RASKIN: Next year meaning?

17 MR. MURPHY: February 2001.

18 MS. RASKIN: So because this --

19 MR. MURPHY: And the surcharge for this
20 current year will go away.

21 MS. RASKIN: So because there are savings,
22 if they're good enough when you do that balancing,
23 what can happen is starting in February is that the
24 customer, the surcharge could start adding on -- it
25 could be higher than -- I take it, there is one right

1 now?

2 MR. MURPHY: Yes.

3 MS. RASKIN: And it could be even higher.
4 If you're saving more we end up paying more?

5 MR. MURPHY: If you're saving more than you
6 were the year before the surcharge would
7 theoretically, yes, be higher.

8 MS. RASKIN: Starting February 1st just in
9 the middle of this upcoming winter season?

10 MR. MURPHY: Right.

11 MS. RASKIN: So that could be another
12 element, and I have no idea how much -- what is the
13 current surcharge, do you know?

14 MR. MURPHY: I think it's about -- I think
15 it's about five cents an MCF, 1,000 cubic feet.

16 MS. RASKIN: So it's just -- compared to
17 everything else it's going to be pretty small?

18 MR. MURPHY: It's a fairly, fairly small
19 component of the total bill, yes.

20 MS. RASKIN: All right.

21 MR. MURPHY: I mean, I threw out a number of
22 19 million dollars over three years to give you some
23 idea relatively where we're talking. Our total
24 purchase gas costs in a year are somewhere between 125
25 and 150 million dollars a year. So it's a very small

1 component of the total bill.

2 MS. RASKIN: Now I don't know who would
3 answer this, so just go ahead; but LG&E has estimated
4 that the total customer bill now will be a \$22
5 increase over last January 1. That's \$7 increase in
6 the customer service charge. It said increase but I
7 don't think that was actually a \$7 increase. And then
8 the \$15 gas commodity increase. Has LG&E considered
9 waiving the increase in the customer service charge
10 for the winter heating season from December 1 through
11 March -- 31st of March?

12 MR. WILLHITE: Ron Willhite responding. No,
13 those are -- that customer charge is part of the
14 authorized rates approved by the commission.

15 MS. RASKIN: I understand that. So you have
16 given no thought to asking to waive it for the winter
17 heating season?

18 MR. WILLHITE: We do not plan to waive it,
19 no.

20 MS. RASKIN: We talked -- and I think Mr.
21 Murphy said that the United States weather service is
22 predicting an average winter, based on a 30 year
23 average. How did last winter compare to that 30 year
24 average?

25 MR. MURPHY: Last year was one of the

1 warmest winters we've had on record.

2 MS. RASKIN: So that if we're --

3 MR. MURPHY: I believe it was -- I believe
4 the fifth warmest since sometime in the 30's.

5 MR. HUELSMANN: Once again, that was Mr.
6 Murphy.

7 MR. MURPHY: Yes, I'm sorry, Mr. Huelsmann.

8 MS. RASKIN: So am I correct then in saying
9 that if we have an average winter this winter it's
10 going to be colder than last winter?

11 MR. MURPHY: Yes, because last year was
12 warmer than normal.

13 MS. RASKIN: Right. And we are all
14 assuming that if it's colder than last winter we'll
15 use more gas because we want more heat; is that
16 correct? That's our general --

17 MR. MURPHY: That would probably be an
18 accurate assumption.

19 MS. RASKIN: The EMPP I understand that you
20 revised that or you can revise it every three months.
21 And I think this would be for you, Mr. Blake. Based
22 on the customer's past -- I'm on the EMPP and it shows
23 whether I'm behind or ahead and so every three months
24 depending on that you revise it. So you use -- but
25 you revise it based on 12 months average rather than

1 my catching up in the next three months; is that
2 correct?

3 MR. BLAKE: The review that's done every
4 three months they're -- adjustments can be made to the
5 payment amount and the bill. There's a couple
6 options. You could wait until 12 months. The feel is
7 that with -- if you look at it on a three-month period
8 you're most likely to whatever incremental increases
9 or adjustments have to be made might be smaller. So
10 the way the plan is set up it looks at it every three
11 months, and if there is an incremental up or down it
12 makes that.

13 MS. RASKIN: So I haven't had an adjustment,
14 and my bill was running a slight credit in my favor.
15 Therefore I'm not expecting to have an adjustment, an
16 increase, in my EMPP for some time, at which point I'm
17 going to be socked. Is that a fair assumption then
18 for other people on the plan who are in more or less
19 in balance at this point in time?

20 MR. BLAKE: If you're running a credit,
21 meaning you're paying ahead?

22 MS. RASKIN: I'm a little bit ahead.

23 MR. BLAKE: Well, when the recalculation is
24 done or when you look at -- at the end of the 12
25 months when it goes back and looks at the full year

1 and looks at arrears, your credit will be -- it will
2 look at your credit and then it will look at the
3 average that you got over the 12 month period, you'll
4 end up with a lower -- a lower monthly billing number
5 since you're running that credit than you would if you
6 were running behind.

7 MS. RASKIN: Right, but the credit is pretty
8 small and based on everything I've heard with the bill
9 going up at least, you know, about \$250 a year. When
10 you get around to looking at it I'm going to feel
11 that.

12 MR. BLAKE: Correct. And that's the --
13 that's the beauty of the equal monthly payment plan in
14 that it helps when you have peaks, highs, it helps you
15 break those out over a number of months instead of
16 being hit with them in one month. But, yes, it does
17 -- you still do end up with an increase if your usage
18 is going up.

19 MS. RASKIN: So you're going to spread --
20 well, my costs are going to go up. You've all told me
21 that. You're going to spread that cost over the
22 future 12 months and not just over the future three
23 months when it starts to hit in December say?

24 MR. BLAKE: No, you'll see it incrementally.
25 When it stops three months from now and it looks at

1 your past 12 months usage it will see that that
2 average has gone up a little. So it will trigger and
3 move it along little incrementally at a time.

4 MS. RASKIN: All right. In your
5 presentation tonight you showed that Kentucky had the
6 lowest, I think it must have been gas prices,
7 residential gas prices, and the LG&E's were lower than
8 the Kentucky average. Have you compared LG&E's
9 average residential gas price to the income of the
10 average Kentucky household and, of course, the income
11 of the average Kentucky household to the income of the
12 average U.S. household?

13 MR. WILLHITE: Ron Willhite responding. I
14 have not.

15 MS. RASKIN: So we have no way of knowing
16 whether these lower -- from your calculations you
17 can't tell us whether this LG&E average residential
18 price is a higher or lower percentage of income in
19 Kentucky than the average U.S. household?

20 MR. WILLHITE: Ron Willhite responding
21 again. I have not made the calculations so I can't
22 draw an inference from that.

23 MS. RASKIN: I also wanted to clarify
24 something. I understood from what you said in
25 response to Ms. Chevront that if a customer is in

1 danger of being cut off they can designate, that is
2 say keep one service. And typically I guess it's the
3 gas service partly because you all don't like to cut
4 it off, if I'm correct? I mean, it's more expensive
5 to cut off; is that correct?

6 MR. BLAKE: We would prefer not to cut off
7 any.

8 MS. RASKIN: We would prefer that you
9 didn't.

10 MR. BLAKE: The customer -- the customer
11 would make their choice as to which one they wanted to
12 -- if they had gas space heaters that they -- and gas
13 range, those kinds of things, they might want gas left
14 on. If not they may want electric left on for
15 electric space heaters. But it would be the
16 customer's decision.

17 MS. RASKIN: But is it true that gas central
18 furnaces typically require electric service as well as
19 gas service in order to work?

20 MR. BLAKE: Most of your modern furnaces do
21 require, yes, electric for thermostat controls and --

22 MS. RASKIN: So it wouldn't be enough in
23 that case, at least for your central heating, to just
24 save your gas service?

25 MR. BLAKE: You'd have to use space heaters

1 or -- most likely.

2 MS. RASKIN: And they can be dangerous, I
3 believe, correct?

4 MR. BLAKE: If not used properly I'm sure
5 they can.

6 MS. RASKIN: Along the way, however, before
7 you get to this point of saving only one service, can
8 a customer designate along the way that they would
9 like all or part of their payment to go their gas or
10 to their electric bill? Because it is -- even though
11 it's a combined bill it shows separately.

12 MR. BLAKE: Gary Blake again. Yes, they can
13 designate what they want their payments going to.

14 MS. RASKIN: They can?

15 MR. BLAKE: Um-huh. Yes, ma'am.

16 MR. HOLMES: Can you split that payment so
17 it can go to gas and electric and you keep both
18 services going?

19 MR. BLAKE: Gary Blake in response. Yes,
20 we'll work out a payment plan to keep both of them on.
21 And that would be out ultimate goal so we didn't have
22 to discontinue any. And I think that your question is
23 if you could split it to where you could keep both on,
24 what we'd be talking about is one of our deferred
25 arrangements. And, yes, sir, we -- that would be a

1 preference.

2 MR. HOLMES: Thank you.

3 MS. RASKIN: Thank you. That's all.

4 MR. HUELSMANN: There are other interveners
5 and I notice in the audience Mr. Childers. Would you
6 like to ask some questions?

7 MR. CHILDERS: Yes, I would.

8 MR. HUELSMANN: Mr. Childers represents the
9 Kentucky Association for Community Action. And we're
10 going to have to get a spot or move things around for
11 you. How's that?

12 MR. CHILDERS: Thank you, Mr. Chairman. I
13 am Joe Childers, I represent Kentucky Association for
14 Community Action. My address is 201 West Short
15 Street, Lexington, Kentucky, Suite 310.

16 Earlier in the presentation I understood
17 that the company has agreed to match the contributions
18 to Winter Help. Is that my understanding?

19 MR. BLAKE: Gary Blake responding. Yes, we
20 have -- we have stepped up to double so we're matching
21 dollar for dollar in promoting that for Winter Help.

22 MR. CHILDERS: And Winter Help is the
23 program that's available to those persons who are not
24 eligible for LiHEAP assistance; is that correct?

25 MR. BLAKE: Gary Blake. Yes, sir, that is

1 correct.

2 MR. CHILDERS: Do you have an estimate at
3 this point in time as to how much Winter Help program
4 will raise this coming winter season based on past
5 contributions and how much additional the company
6 intends to put into the program?

7 MR. BLAKE: Gary Blake. We have not capped
8 what our contribution will be. When we look at past
9 year's programs it's been about \$200,000 that Winter
10 Help has accumulated for winter. We'd love to double
11 or triple that.

12 MR. CHILDERS: Have you -- are you preparing
13 any advertising materials to urge customers to also
14 step up to the plate?

15 MR. BLAKE: Yes, yes, we are. And we've had
16 news releases that have gone out to the press that
17 have communicated that that increase had taken place.
18 A copy of the news release is on the table out there.
19 We do have bill inserts that have been set up to
20 communicate that, as well as we're making arrangements
21 for some press conferences with supporting agencies
22 and some of those kinds of things to really encourage
23 folks to step up and take advantage to make a dollar
24 go twice as far.

25 MR. CHILDERS: Now I understood Mr. Willhite

1 to say earlier that the company believes that any
2 universal service would have to be enacted by the
3 General Assembly. That's historically been the
4 company's position and I believe he said that that was
5 historically the company's interpretation of prior PSC
6 orders; is that correct?

7 MR. WILLHITE: Ron Willhite responding.
8 Yes.

9 MR. CHILDERS: If such legislation is
10 introduced in a fashion that was similar to that
11 introduced by the low-income groups during the 2000
12 General Assembly, would the company support that
13 legislation?

14 MR. WILLHITE: Mr. Childers -- Ron Willhite
15 responding -- Mr. Childers, I'm not familiar with that
16 legislation. Haven't recently -- if I've seen it I
17 don't recall for sure. But we would be willing to
18 engage in the -- in crafting an appropriate bill by
19 the legislature.

20 MR. CHILDERS: Does the company have in mind
21 a particular charge per line that it would support,
22 either a dollar, 75 cents, 50 cents, two dollars, any
23 level?

24 MR. WILLHITE: Ron Willhite responding
25 again. No, I think it's premature at this time to

1 speculate about what the ultimate form of such
2 legislation might be.

3 MR. CHILDERS: Given the looming crisis for
4 low-income customers of LG&E this winter in the event
5 that the winter weather is, again, follows a normal
6 pattern and is colder than last winter or is worse,
7 would the company support an emergency declaration by
8 the Public Service Commission to establish universal
9 service?

10 MR. WILLHITE: Ron Willhite responding
11 again. I guess it's -- based on our legal
12 interpretation that the commission does not have a
13 statutory authority to do that.

14 MR. CHILDERS: If the commission disagreed
15 would the company oppose such a declaration?

16 MR. WILLHITE: No. Ron Willhite. No, sir.

17 MR. CHILDERS: As of the end of September
18 2000, what percentage of LG&E's gas storage capacity
19 was filled, if you know?

20 MR. MURPHY: Clay Murphy. We answered that
21 data response. I don't have the number to hand. If
22 you'll give me just a moment here I can tell you what
23 that was. Just bear with me here for a second. At
24 the end of September you want to know what percentage
25 was filled?

1 MR. CHILDERS: Or whatever date you can tell
2 us.

3 MR. MURPHY: I can tell you that one.
4 Roughly three-quarters, somewhere between 75 and 80
5 percent.

6 MR. HUELSMANN: Let me follow up on that,
7 Mr. Childers. How close -- how are we today versus a
8 year ago?

9 MR. MURPHY: I think the more operative
10 question would be, will we have our storage -- is our
11 storage on schedule and will we be full at the end of
12 October. And the answer to that question is, yes,
13 we're on schedule now and we will have -- our storage
14 will basically be full at the end of October and
15 prepared to withdraw gas this coming winter.

16 MR. HUELSMANN: Thank you. Mr. Childers?

17 MR. CHILDERS: Thank you. Is that the
18 typical goal for the company for every year to have
19 the storage capacity filled by the end of October?

20 MR. MURPHY: Yes.

21 MR. CHILDERS: Now, you talked about the
22 savings from the PBR program that was implemented by
23 the Public Service Commission. And I believe you said
24 that approximately 19.3 million dollars savings had
25 been realized through I think the end of September was

1 the date that you mentioned on that. But you also
2 mentioned a threshold that had to be reached before
3 the savings is shared 50/50 with the customer.

4 MR. MURPHY: Right.

5 MR. CHILDERS: So would you explain to us
6 how much of that 19.3 million the customer is actually
7 expected to see after that threshold is met?

8 MR. MURPHY: After the threshold is met the
9 customer would expect to see 50 percent.

10 MR. CHILDERS: Okay, well, maybe --

11 MR. MURPHY: Are you asking me what the
12 threshold is?

13 MR. CHILDERS: Yes, please. What is the
14 threshold?

15 MR. MURPHY: I don't have that number to
16 hand. But that typically runs -- my recollection is
17 that number runs about \$250,000 a year. And so we'd
18 have to bust that 19.3 million dollars up into each of
19 its respective years and then take the threshold from
20 that and then divide by two.

21 MR. CHILDERS: So once the threshold is met
22 -- the threshold is met and the company keeps that as
23 its profit; is that correct? Is that the way I
24 understand PBR?

25 MR. MURPHY: No. The threshold is the

1 amount that we have to overcome before the company
2 gets to keep any of the -- to participate in the
3 sharing.

4 MR. CHILDERS: You have to save more than
5 \$250,000?

6 MR. MURPHY: Yes. Yes.

7 MR. CHILDERS: Anything over the \$250,000 is
8 shared 50/50?

9 MR. MURPHY: That's split, yes.

10 MR. CHILDERS: But that's \$250,000 per year?

11 MR. MURPHY: Per year.

12 MR. CHILDERS: Do you know how much the 19.3
13 million is broken down from '97, '98, '99?

14 MR. MURPHY: Off the top of my head, no, I
15 don't know that number.

16 MR. CHILDERS: There were several questions
17 from staff about LG&E's disconnect procedures, and you
18 explained those procedures. And I think there was
19 some discussion about a couple of new programs, credit
20 counselor and maybe one other new program. Now,
21 historically LG&E has, as I understand it, has had one
22 of the higher shut off disconnect rates of any utility
23 in the state. Given that history, is LG&E prepared to
24 go even further to prevent its low-income customers
25 from suffering from disconnects this winter?

1 MR. BLAKE: Gary Blake responding. I'm not
2 aware of numbers that we're the highest in the state.
3 I know that when we look at industry-wide the non-paid
4 disconnects that we work we're only working about six
5 out of every 100 that are due for disconnection. But
6 that said, I think -- we definitely, when we enter a
7 time of year where we have extreme weather, we are
8 extremely sensitive to the customer's needs for
9 service.

10 And that is a time when we do very
11 diligently review all of our credit policies and
12 practices. And what we're looking at is we're looking
13 at partnering up, coming along side with the low-
14 income support agencies, utilizing the programs, and
15 trying to work to where we do achieve what's in the
16 best interest of our customers that do have needs.

17 MR. CHILDERS: You indicated that there was some
18 sort of policy that the company has about not
19 disconnecting on freezing days. But weather is
20 volatile, it might be freezing one day, and especially
21 in Kentucky, it might be 70 degrees one day and 20
22 degrees the next day and then 70 degrees and then 20
23 degrees. So is there a policy -- do you average that
24 out or is there -- I mean, if it's 20 degrees one day
25 and you're not going to disconnect, does that mean you

1 might disconnect the next day when it's 70?

2 MR. BLAKE: Gary Blake responding. The
3 target is that we don't disconnect when there is
4 freezing weather. We may have from one end of the
5 county and from day to day times where we do have
6 temperature swings that are -- so we have -- we use
7 common sense. And whenever it gets down to -- we
8 don't wait to -- we don't say it has to be 32. When
9 it gets down into approaching freezing temperatures is
10 when we begin to exercise our cease.

11 MR. CHILDERS: Well, then do you disconnect
12 say in January, December those days?

13 MR. BLAKE: Gary Blake responding. Last
14 January and December the temperatures were extremely
15 warm so we were doing some disconnecting in January
16 and December of last year. If we go back to where we
17 had very cold winters we'll see months when we did
18 absolutely -- when our disconnects fell ten or less.
19 So it is very weather sensitive, yes, sir.

20 MR. CHILDERS: So if you disconnect say in
21 those winter months of January, December and then it
22 gets cold, that person will not be reconnected till
23 they make plans or --

24 MR. BLAKE: That's -- whenever we get into
25 that sort of weather -- Gary Blake responding --

1 whenever we get into that weather condition to where
2 we have customers that could be, that the residents or
3 the occupants of a residence that doesn't have
4 service, that is a great concern for us. So we will
5 -- we work hard to see that we don't leave somebody
6 that's living in a residence without service during
7 freezing weather.

8 So when we talk about disconnects, when I
9 say we had ten or if we had 200, some of them may be
10 disconnected and within -- before the day's over
11 they've made payment or established a payment plan
12 with us. So sometimes those disconnects can be very
13 short in duration.

14 MR. CHILDERS: That's all I have. Thank
15 you.

16 MR. HUELSMANN: Thank you, Mr. Childers.
17 Mr. Holmes would like to ask a few questions.

18 MR. HOLMES: I just have a few questions
19 real quickly so we can move along. When you talk
20 about purchasing gas into your storage and you're not
21 completely filled at this point, now if you're
22 purchasing gas is this gas higher than -- the prices
23 higher than what you ordinarily would have purchased
24 back a few months ago?

25 MR. MURPHY: Clay Murphy. Yes, prices for

1 gas this month are roughly \$5.30. If you look back
2 last winter there were periods last winter when we
3 purchased gas at less the \$2.

4 MR. HOLMES: Are there any pipeline capacity
5 constraints that would restrict the amount of gas that
6 could be procured on any one of the pipelines that you
7 currently use?

8 MR. MURPHY: There are no bottlenecks or no
9 constraints that would affect us because we use firm
10 pipeline transportation capacity to make sure that
11 we're not interrupted or otherwise knocked off.

12 MR. HOLMES: This is one for Mr. Blake. You
13 talked about your bill inserts and putting, I guess,
14 some inserts into your bill. Do you do any other
15 types of non-traditional forms of advertising for
16 distribution of your various programs? I'm not sure
17 what the percentage that actually read bill inserts,
18 but advertising neighborhood, newsletters, or do you
19 do any of those types of --

20 MR. BLAKE: Gary Blake responding. The
21 things that we've done this year to really increase
22 the emphasis on all the WinterCare, the wise use, and
23 the equal monthly payment plan sort of opportunities
24 to help mitigate what we're facing for the winter.

25 We have scheduled and had some radio talk

1 shows, some TV interviews. We have the press
2 releases. Some things -- those are things that we
3 would not typically do. Those are the kinds of things
4 that we are doing to bring the community awareness up.

5 MR. HOLMES: Thank you. That's all I have.

6 MR. HUELSMANN: I have just a couple of
7 questions. One is in the interrupting, the
8 curtailment, are any schools or hospitals or that on
9 interruptible service?

10 MR. MURPHY: Clay Murphy. To my knowledge
11 we don't have any schools on interruptible service.
12 We do have hospitals, I believe, that have
13 interruptible service. But it's also my understanding
14 that hospitals are required under Kentucky statute to
15 have alternate fuel in any case. And they're aware
16 that they're subject to interruption, and we remind
17 them -- we remind all the interruptible customers that
18 they're subject to interruption.

19 MR. HUELSMANN: You're satisfied then that
20 the public will be protected in the event you have to
21 curtail them?

22 MR. MURPHY: Yes.

23 MR. HUELSMANN: And they have sufficient
24 backup source?

25 MR. MURPHY: Yes.

1 MR. HUELSMANN: The next one is your credit
2 counselor. When do you expect that position to be
3 filled?

4 MR. BLAKE: Gary Blake responding. The ad
5 is out now. We're going through the recruitment phase
6 right now. And we're looking at -- we want to get
7 that position filled by mid to end November so we will
8 have them in place for the winter.

9 MR. HUELSMANN: If we do not have an opinion
10 out by then or an order out by then we would
11 appreciate receiving a copy of the vita for that
12 person, if you would. Consider that as a supplemental
13 data request.

14 MR. BLAKE: Yes, sir.

15 MR. HUELSMANN: In the year 1977-78 is the
16 worse winter that I can remember. And I guess I want
17 to know assuming we have the winter of 1977/1998 in
18 this coming winter, is there going to be enough gas so
19 that every consumer in Kentucky will have an adequate
20 gas supply for heating their homes?

21 MR. MURPHY: My name is Clay Murphy. I'll
22 answer that question. Indeed, 1976 and '77 and that
23 winter following winter '77-78 were two of the worst
24 winters that we had. And those are the two winters
25 that we use for planning criteria along with some

1 other days that have occurred since then. So we have
2 -- will have adequate storage inventory and adequate
3 pipeline capacity and gas under contract to meet the
4 needs of our firm customers.

5 MR. HUELSMANN: Thank you.

6 MR. HOLMES: One more, Mr. Murphy. When
7 you're procuring gas and you say you do the lowest
8 price of the lowest bid, are there any other
9 indicators you use to assure that that is the lowest
10 price, or is it just based on a bidding mechanism?

11 MR. MURPHY: I think we look at several
12 factors. When we take competitive bids. We look at
13 who the supplier is and who -- and our track record
14 with them if we have one. And also we look at trade
15 references and creditworthiness. But when a supplier
16 knows that I'm taking bids and we make it very clear
17 to a supplier that, you know, you're not the only one
18 we've called, we've called many other people. And
19 when he knows he's got to put his best foot forward
20 and put the price on the line they have a way of
21 coming through that is sometimes amazing. And when
22 you tell somebody they did not get the business and
23 that they were ten cents or one cent or a half cent
24 out of the market it whips them into shape the next
25 time. And I think competitive bidding is one of the

1 most sound ways of flushing out what the market price
2 is.

3 In addition to that we also have many, many
4 industry price postings that we can measure against.
5 In fact, that's part of what our whole PBR mechanism
6 does is measure against price posting. So I think the
7 competitive bidding and the price postings comparisons
8 help us do that.

9 MR. HOLMES: I think the staff had asked,
10 have any of your suppliers of the lowest bidders ever
11 defaulted or --

12 MR. MURPHY: No. We would discontinue
13 dealing with somebody that failed to deliver under the
14 terms of their agreement.

15 MR. HOLMES: So all your contracts they were
16 able to deliver on?

17 MR. MURPHY: All --

18 MR. HOLMES: All of your contracts with the
19 lowest bidders were able to deliver the gas?

20 MR. MURPHY: Yes.

21 MR. HOLMES: Thank you.

22 MR. HUELSMANN: Since this is a quasi-
23 judicial proceeding questions must be asked by
24 lawyers. So some of you all in the audience submitted
25 questions, and I've got three questions here that I

1 deem, although may be a little repetitious, I deem
2 worthy of questions to LG&E and this is part of item
3 number five.

4 The first question is are LG&E's industrial
5 and commercial customers included in the cost
6 increase? And, are only the residential customers
7 footing the bill?

8 MR. MURPHY: My name's Clay Murphy. I'll
9 answer that question. Could you repeat each
10 separately, the --

11 MR. HUELSMANN: The first question is, are
12 LG&E's industrial and commercial customers included in
13 the cost increase.

14 MR. MURPHY: The answer to that is, yes. We
15 have a uniform gas cost, and we talked just about the
16 gas cost component. The big part on the bar chart
17 that Mr. Willhite showed earlier, that's uniform for
18 industrial, commercial, and residential sales
19 customers.

20 MR. HUELSMANN: I think that moots the
21 second question, but I want to ask it because one of
22 the members of the public wrote it down here. Are
23 only residential customers footing the bill?

24 MR. MURPHY: No.

25 MR. HUELSMANN: The next question is, is the

1 cost of the natural gas stored in LG&E's Limestone
2 Caverns in or about Mammoth Cave included in the cost
3 increases?

4 MR. MURPHY: We have five storage fields and
5 they're not so far away as Mammoth Cave. They're
6 actually around Fort Knox and south of there. But,
7 yes, that -- that gas in storage is reflected in the
8 withdraw price, the price that we sell gas to
9 customers in the wintertime. So to the extent that
10 that's lower or higher than whatever the time -- I
11 think what this question is getting at is, we would
12 -- the price that we withdraw the cost -- withdraw the
13 gas is the same price that we inject it at, and that
14 savings, that cost is passed on to the customer. So,
15 yes, it's reflected in the gas cost.

16 MR. HUELSMANN: And once again, that was Mr.
17 Murphy answering that question.

18 Second part of that question is, was not
19 that gas purchased during an off peak season at a far
20 less price?

21 MR. MURPHY: Certainly the gas that we
22 purchased earlier in the year was purchased at a lower
23 price. And to the extent that it's lower than the
24 price that's -- we're purchasing gas at now or later
25 on in the winter the customers will get the full

1 benefit of that.

2 MR. HUELSMANN: The last question is, why
3 does LG&E need to request another price increase when
4 they already have the ability to pass on cost
5 increases through the "gas supply cost component"
6 added in the billing now?

7 MR. WILLHITE: Ron Willhite responding. I
8 would have to interpret the question to mean that it's
9 the most recent filing that we've made with the
10 commission with regard to the gas supply clause. And,
11 of course, that has to be filed with the commission
12 and approved before we can bill those charges.

13 MR. HUELSMANN: That concludes this part of
14 the case. We are now going to take unsworn testimony
15 or unsworn statements and comments by the public, and
16 that's you. And we really appreciate you being here
17 to give us those statements.

18 We would ask you to come and -- Carol, if
19 you could either move over, Ms. Raskin, or another
20 seat -- sit right in the middle seat there, identify
21 yourself by name and spell your last name if you would
22 to help the court reporter.

23 I'm going to take these sign-in sheets with
24 everybody signed in and we're going to go down those
25 sign in sheets by page, and hopefully it's first come

1 first gets to speak.

2 The first name I think is Cathy Hunter.
3 Close enough. Whoever the person is it's 1941 Pain
4 Street.

5 MS. HINKO: My name is Cathy Hinko.

6 MR. HUELSMANN: Excuse me.

7 MR. HINKO: That's okay. That's my writing.
8 And I'm the director of the Housing Authority of
9 Jefferson County. And the Housing Authority of
10 Jefferson County operates a Section 8 program in which
11 we serve 7,000 clients each month. And we have, based
12 on all the approved increases, recently redone our
13 utility allowances.

14 The reason we have utility allowances is
15 because the United States of America through Congress
16 has stated that decent and affordable housing in this
17 country includes heat and light. So that it is a
18 basic value of this country that people be able to
19 have these services in defining safe and decent
20 housing. So these are not luxuries but basic needs of
21 people.

22 As a result of the increases that we have to
23 make in helping people pay their rent, it will be a
24 cost of over one and a half million dollars in federal
25 assistance that ultimately will mean fewer people

1 served because we have to pass on the ability to pay
2 for utilities.

3 And I would urge the Public Service
4 Commission on two points. One is to extrapolate from
5 what we're learning. As Mr. Murphy said, the enormous
6 increases are unrelated to the risk of gas supply. So
7 I urge the Public Service Commission now and in the
8 future in all its dealings to not embark on any policy
9 that would enable prices of a basic need to rise
10 uncontrollably and unrelated to a national policy on
11 meeting out a limited resource and to look at
12 deregulation and its impact and what this -- the
13 Public Service Commission will do in the future.

14 The second thing I want to do is to talk
15 about the universal service program. It is much like
16 the Section 8 program in that families pay according
17 to how much they can afford. In the universal service
18 program that is being promulgated, there is a
19 component that urges families to save because the
20 savings goes back to the family. I think that
21 everything that can be done to enable a universal
22 service program to come into being in Jefferson County
23 is necessary.

24 On the waiting list for Section 8 are over
25 9,000 families. Eighty-eight percent of those

1 families are at 30 percent or below of median income.
2 There is no increase in Social Security. There is no
3 increase in SSI that will in any way enable people to
4 be able to pay these bills. There is no increase in
5 wages that is going to take effect so that this winter
6 there will not be a whole new group never before
7 needing these services who now -- working poor will no
8 longer be able to afford their utilities.

9 We are going to see an explosion of people
10 who have not sought our services and who no longer are
11 going to be able to afford basic, safe, decent housing
12 and shelter.

13 So I urge the Public Service Commission to
14 do whatever is in their power to get a universal
15 service program. Thank you.

16 MR. HUELSMANN: Thank you very much. Next
17 person, Lisa Osanka.

18 MS. OSANKA: You do get extra points for
19 getting it correct.

20 MR. HUELSMANN: One for two.

21 MR. OSANKA: Hello, my name is Lisa Osanka
22 and I'm the director of the Louisville Tenants
23 Association. And thank you for the opportunity to
24 comment on the impact of gas and electric rate
25 increases to low-income tenants in Jefferson County.

1 We believe that low-income tenants will
2 increase their risk of homelessness because of these
3 proposed increases in energy rates. In addition, LTA
4 also supports a universal service fund to assist low-
5 income customers with their energy bills.

6 Since 1970 LTA has been the only advocate
7 for low-income tenant families in Louisville and
8 Jefferson County. For 30 years we have worked to
9 improve living conditions, prevent homelessness,
10 increase understanding of tenant's rights and
11 responsibilities, foster better relations between
12 landlords and tenants, reduce evictions, and educate
13 the community about the urgent need to increase the
14 supply of safe, decent and affordable housing.

15 During the fiscal year 1999-2000 our
16 counseling lines responded to over 300 -- excuse me,
17 3,400 unduplicated calls from tenants regarding their
18 rights and responsibilities. Nearly a third, 31
19 percent, were assessed at some risk of homelessness.
20 With increases in gas and electric rates we anticipate
21 an increase in the number of clients categorized at
22 risk of homelessness.

23 One factor to assess these at risk tenants
24 is paying more than 50 percent of gross income for
25 rent and utilities. Obviously when utility rates go

1 up, the number tenants unable to afford housing and
2 therefore be at risk of homelessness also goes up.

3 The costs of homelessness to our community
4 are great. We should support a universal service fund
5 that helps reduce the risk of homelessness instead of
6 raising utility prices that increase the risk of
7 homelessness. Thank you.

8 MR. HUELSMANN: Thank you very much. She
9 spells her name O-S-A-N-K-A. Next person is Becky
10 Roehrig.

11 MS. ROEHRIG: You definitely get points for
12 saying that one right.

13 MR. HUELSMANN: Thank you.

14 MR. ROEHRIG: My name is Becky Roehrig. The
15 last name is spelled R-O-E-H-R-I-G. I'm the director
16 of Affordable Energy. We operate the all season
17 assurance plan which is a monthly year round subsidy
18 on the LG&E bill.

19 I wanted to talk first a little bit about
20 the program to make sure that folks in the room are
21 familiar with the program and then look at the impact
22 of the gas price increases on the program.

23 The program itself is, as I mentioned, a
24 monthly year round subsidy on the LG&E bill. We serve
25 folks who are eligible for the LiHEAP program, which

1 is at 110 percent of the federal poverty guidelines or
2 less. And we make our benefits based on a household's
3 income, the number of people in the household, and
4 last year's utility bills.

5 And just for an example, the average income
6 of folks on our program is roughly about \$500 a month.
7 We say that a household should be able to afford to
8 pay roughly about 10 percent of that to their LG&E
9 bill. So ten percent of \$500 would be \$50 a month.

10 What we do then is we look at last year's
11 bill. And in a winter month, let's say if the bill
12 was \$150, we would -- the subsidy would pay \$100 or
13 the co-payment on our part would be \$100 and the
14 client's payment would be \$50.

15 In a month like April or October where
16 you're typically between your heating and cooling
17 times, let's say if the bill is \$60 the subsidy or co-
18 payment would only \$10 and the client's payment would
19 be roughly \$50.

20 There's a couple of reasons why we believe
21 that this is a good way of setting up a subsidy or co-
22 payment program. One of the main things is that it
23 encourages client responsibility. And we do this in a
24 couple of ways. The first and primary way is that we
25 only make our co-payment if the client makes their

1 payment to LG&E. That way they're leveraging by being
2 able to pay their portion they also get our portion
3 each month.

4 The other things is the what that this is
5 set up we also encourage energy conservation, because
6 if the household is able to save on their gas and
7 electric usage they get the benefit of that in the
8 first year.

9 We also work with households as they join
10 the program to pay off any past due balances that they
11 may have with the company. LG&E works closely with us
12 to allow those to be set up over a 12-month payment
13 plan. And the subsidy or co-payment takes care of
14 half of the back balance and we ask that the household
15 also take care of half of the back balance.

16 We also work closely with both Project Warm
17 and the city and county weatherization agencies to
18 promote weatherization services for our clients,
19 thereby reducing the utility usage in the household
20 and hopefully reducing the subsidy and then also
21 reducing the amount that the household would need to
22 pay.

23 We work real closely with LG&E on this
24 program. They refer customers to us when we have the
25 ability to add people to our program. They share lots

1 of information with us as we do with them, and it's a
2 very cooperative arrangement with the utility.

3 We did have an independent evaluation
4 performed on the program say roughly a year ago that
5 showed some successful results of the program. I just
6 want to highlight a couple of them. There's a really
7 thick evaluation if anybody wants to see a copy of it.

8 One of the most remarkable things is that we
9 were able to keep 89 percent of the folks who joined
10 the program on the program. That compares to roughly
11 about 75 percent in other programs similar to this
12 around the country. And the 89 percent represents the
13 number of households that were able to make their
14 payments every month in a timely fashion to LG&E in
15 order to be able to stay on the program.

16 Some of the 11 percent that wasn't able to
17 -- weren't able to stay on the program were people who
18 moved or otherwise left the service territory or that
19 we lost contact with.

20 Some of the biggest advantages of the
21 programs in terms of the social impact or the societal
22 impact is if you look at the number of brown bills or
23 disconnect notices. We saw a 61 percent reduction in
24 the number of brown bills or disconnect notices with
25 our program. And when you look at disconnect notices

1 that's obviously in terms of the amount of
2 uncollectables that's going on with LG&E, but in terms
3 of the household you're also looking at the anxiety of
4 getting disconnect notices and the scrambling and
5 everything that needs to happen in order to rectify a
6 brown bill or a disconnect notice in order to keep the
7 service on.

8 With that we also showed a reduction of 63
9 percent or roughly on average \$80 per participant in
10 the arrearages or the back balances that they owed to
11 LG&E.

12 It wasn't specifically quantifiable but we
13 believe that we also reduced transients 30 to 40
14 percent. In other words, people are more able to
15 afford their utility bills, are more to stay in the
16 same location so that we don't have children
17 transferring from schools. We have more stable
18 household and more stable neighborhoods.

19 So we do have a very successful program that
20 operates. Currently we serve approximately 1,200
21 households on our program. The funds that we
22 currently have are due to run out roughly within a
23 year; kind of depends on how high the prices go and
24 how high our subsidies will need to go exactly how
25 long that will last.

1 We have over 2,000 households that are
2 signed up on a waiting list or a list expressing
3 interest in the program that we are unable to meet
4 that need at this point because of a lack of funding.
5 So at this point anybody who's calling in or is
6 referred to us from the utility we don't have the
7 funds to add anyone new to the program at this time.

8 I'd like to talk a little bit about the
9 impact of the gas price increases in terms of what
10 that does with the dollars. We've looked at the
11 increases both on the gas supply side and also on the
12 base rate in terms of the CCF and also the monthly
13 charges. And when I compute that, looking at the
14 average 900 CCF usage that we're looking at, what we
15 find is roughly an increase of almost 70 percent over
16 last year's prices. That computes out to a dollar
17 amount of an average annual increase of \$312.13.

18 On a monthly basis that's \$26 a month.
19 However, for the folks who aren't on the EMPP which
20 many households who are renters and move around more
21 are less likely and it's less recommended to be on an
22 EMPP are more likely to feel the cost of that all in
23 the winter time. So we're looking at over \$300 of an
24 increase this winter for all of us, all of the rate
25 payers. And obviously we're especially concerned

1 about how this will impact low-income and moderate-
2 income families.

3 If you look at the increases and compare
4 those to the affordable energy, the ASAP budget from
5 last year, if these prices were in effect last year we
6 would have spent, excuse me, an extra -- over \$400,000
7 just to maintain the case load that we had last year
8 with these new prices. So we're talking about a
9 pretty dramatic impact in terms of the ability to run
10 this program even for the year that the funds are
11 left.

12 I want to talk about just maybe two specific
13 client examples or household examples where people
14 have talked to me. One just to talk about the value
15 of the ASAP program as it stands right now. I spoke
16 with someone who's been on the program for just about
17 a year and I talked with her the other day and she
18 said -- she called in because she had a zero balance
19 on her bill. And she said, I just want to thank you
20 all. She said, I can't tell you how many years it's
21 been since I haven't owed LG&E any money. And just
22 talked with me a little bit about how good that feels
23 and how she doesn't have to worry about her services
24 being disconnected, the impact that that has on her
25 children, the impact that, excuse me, that the stress

1 has on her, and just a real appreciation for the value
2 of what this program brings to her.

3 I also got a call last week from a
4 gentleman. He mentioned that he was 80 years old,
5 that he and his wife live on Social Security and was
6 interested in the services of our program. And I
7 explained that we didn't have more funds and would put
8 him on our list. And he said, now I'm not looking for
9 a handout, I've never asked for anything before in my
10 life; he said, and I don't need much. He said, but
11 these price increases really scare me and I'm really
12 worried about how I'm going to be able to make it
13 through this winter.

14 So I think what we're looking at is a really
15 dramatic impact on the lives of people who are already
16 living on the margin or barely making it. Three
17 hundred dollars over the course of a winter is a very
18 large amount for folks to be able to come up with.

19 So I also want to encourage LG&E and the
20 commission where is possible for you all to support a
21 universal service fund. So wherever you believe you
22 have the authority to do that, to promote a universal
23 service fund that would provide funds for the ASAP
24 program, would also provide funds for weatherization,
25 which is an integral part going along with the ASAP

1 program, and also emergency assistance for folks who
2 don't qualify for the ASAP program or find themselves
3 in a one time crisis. That's all.

4 MR. HUELSMANN: Thank you very much. She
5 spells her name R-O-E-H-R-I-G, for the record. I want
6 to say to everyone, if you didn't sign this sign in
7 sheet if you do want to speak at the end you are
8 welcome to speak. And with that I'd like to give the
9 opposite admonition, if we could keep our comments the
10 shorter the better to get out of here. But we will
11 stay here until the last speaker has spoken. And our
12 public speakers are coming up later on and, of course,
13 they'll be given the opportunity to speak.

14 The next one we have is David Brown Hillock.

15 MR. HILLOCK: I brought a handout with me
16 I'll give you. Chairman Huelsmann, Vice Chairman
17 Holmes, I really appreciate the effort you all have
18 made to come to Louisville to hear from the people
19 that are actually here.

20 I've been involved in this for many years
21 and it's back -- I believe the 1980's was the last
22 time that the commission actually came out to
23 Louisville and actually heard from the public. So
24 this is very refreshing. I really appreciate that.

25 I'm not here tonight representing any

1 particular client. I've been before you all many
2 times representing different entities as an expert
3 witness. I'm here tonight as a member of the public,
4 but I do as part of full disclosure have to let you
5 know I am on the Affordable Energy Corporation's board
6 of directors.

7 What you've heard here tonight I think is
8 quite clear. The issue is that it's not a matter of
9 gas supply. I think LG&E has taken care of that.
10 We're going to be in good shape this winter. It's an
11 issue of price. And as Ms. Roehrig mentioned before I
12 got up here, the impact on the average low-income
13 person, if you consider the folks on her program to be
14 representative, will be about a \$300 increase this
15 winter. And LG&E stated what they're hoping to do,
16 increasing Winter Help and LiHEAP. The President,
17 President Clinton has released some more LiHEAP
18 dollars.

19 But just to put that all in perspective, the
20 increased LiHEAP money may be an extra \$15-20 per
21 household. They're already getting an average of \$80
22 a household. So if you talk about a \$300 increase, an
23 extra \$20, that's not going to bridge this \$300 gap.

24 Doubling or tripling Winter Help is great
25 and we need to see that happen. But that extra

1 dollars is not going to do the job for what's going on
2 this winter.

3 Coming here tonight is a great first step.
4 And I appreciate you all coming and having this
5 administrative case and coming here. But in the same
6 way, holding a public hearing is not enough.

7 And I'm going to challenge you as the Public
8 Service Commission to do three things. And if you do
9 these three things I think we can overtake the crisis
10 that we see coming this winter. And there will be a
11 crisis this winter unless something is done.

12 The first is to agree with everyone you hear
13 speaking that there is the potential for a crisis this
14 winter. When LG&E had so many folks last winter that
15 were disconnected for non-payment and it was a mild
16 winter and then you see rates up 70 percent over last
17 year there is the possibility of a real crisis this
18 winter. So that's the first thing. I hope that you
19 will agree that there is the potential for a real
20 crisis this winter.

21 The second thing that I would like you all
22 to consider is and I handed out these sheets showing
23 you all that you do have -- that other states, other
24 Public Service Commissions in other states did not
25 have special enabling legislation and went ahead with

1 assistance programs for low-income households. So I
2 believe you can do it without any special legislation.
3 And I think that you need to take that step to avert
4 the crisis.

5 I invite you to do it in this way. Instead
6 of simply going out there and putting a universal
7 service fund in place and saying this is -- we are now
8 doing this, I think it needs to be done in two steps.
9 The first is this winter because there's no way we can
10 get enabling legislation passed before this winter,
11 even with a special session. Anything that's passed
12 in a special session it will probably be July 1st
13 before it comes into place. We need the commission to
14 enact an emergency order to put a universal service
15 fund into place on an emergency basis that will go
16 away when legislation is passed.

17 And then that second thing -- would be the
18 third thing on my list of things to do, is for the
19 commission to work with consumer groups around the
20 state to work with utilities like LG&E said that
21 they're willing to work on trying to get some
22 legislation that they think would be appropriate. And
23 my understanding is there's three of the five major
24 gas utilities in the state that already support
25 universal service, to work with the consumer groups,

1 to work with the other gas utilities, and to get your
2 input to put together some legislation and bring it
3 before the special session that's going to be coming
4 up in January. And together, before anybody can
5 challenge your emergency order, we'll get some
6 legislation passed and then it won't be a question
7 anymore whether you have the authority. The authority
8 will be there.

9 But we need you to take that emergency step
10 so the crisis doesn't hit this winter, because all
11 enabling legislation can do is help us for future
12 years. So I'd ask you to please consider those three
13 simple steps to try to avert a crisis this winter.
14 Thank you.

15 MR. HUELSMANN: Thank you very much.

16 MR. HOLMES: Thank you, Mr. Hillock.

17 MR. HUELSMANN: The next person that I have
18 is Mike Jupin. Would you spell for the court reporter
19 your last name?

20 MR. JUPIN: Mike Jupin, J-U-P-I-N.

21 MR. HUELSMANN: Excuse me, sir.

22 MR. JUPIN: In a lot of ways I could just
23 say Amen to what David just said. I would like to add
24 a couple other words.

25 I am an LG&E customer. I'm an LG&E

1 shareholder. I'm also the executive director of he
2 South Louisville Community Ministries. As such, the
3 South Louisville Community Ministries is one of 15
4 community ministries in Jefferson County which helps
5 provide emergency assistant for low-income persons.

6 And I can tell you there will be a crisis
7 this winter if we have a cold winter. And there may
8 be a crisis even if we don't. We cannot meet the need
9 now. We could not meet the need last winter. LiHEAP,
10 Winter Help, what the churches are doing, what the
11 county is doing, what the government is doing, we
12 could not meet the need. And if something doesn't
13 change, if we don't have something like universal
14 service, there will be people dying this winter. It
15 may not be with utility shut-offs, it may be because
16 somebody chose to buy food and medications and
17 couldn't pay their utility bill or they just turned
18 their utilities down.

19 I mean, we have people in the summer time,
20 older person in particular, we'll be delivering meals
21 to their homes and their houses will be terribly hot
22 because they do not want to turn on the air
23 conditioning because they know they won't be able to
24 pay the bill. And the same thing will happen this
25 winter. There will be people whose houses are too

1 cold for them to live in, but they'll be afraid to
2 turn them up because they'll be afraid they can't pay
3 the bill.

4 So I urge you LG&E to support in any way you
5 can a universal service measure, Public Service
6 Commission to do whatever you can. And I would just
7 echo what David said. I mean, do an emergency order.
8 What's the worst that can happen? The best that can
9 happen is you can save somebody's life. Thank you.

10 MR. HUELSMANN: Thank you. The next person
11 is David Coyte. How bad was that?

12 MR. COYTE: I'm David Coyte. I'm a private
13 citizen.

14 MR. HUELSMANN: Would you spell your last
15 name so that the court reporter --

16 MR. COYTE: C-O-Y-T-E.

17 MR. HUELSMANN: Thank you.

18 MR. COYTE: And I own apartment buildings in
19 both Indiana and Kentucky where I provide the heat.
20 And I would be glad to provide, to pay a universal
21 service charge to provide this kind of assistance.
22 And I think that it's important for all of us as a
23 community to make some small sacrifices to bring about
24 the benefit -- for the benefit of all.

25 One of the questions -- one of the things I

1 was interested in when the LG&E people were talking
2 about these programs they, had I didn't see any demand
3 management. There was some weatherization programs
4 servicing about 300 homes, but reducing the demand on
5 the gas supplies is going to be one of the keys to
6 reducing the prices and future hardships. That seems
7 to be one of the things that was seriously lacking in
8 what they addressed.

9 One of my specialties as an activist is in
10 energy resource issues, which has to do primarily with
11 petroleum resources. But I've also in the course of
12 studying those looked a lot at natural gas resources
13 as well.

14 While it's true that this country has been
15 -- had declining petroleum resources in production
16 levels since the '70s, natural gas reserves are still
17 pretty solid in this nation. And I think the issue
18 that we need to address is how much of this current
19 price crunch is a result of our policies of
20 deregulation which have encouraged a lack of
21 prospecting on the parts of the oil companies and gas
22 companies, not LG&E, but the well drillers, rather
23 than an aggressive search to keep those supplies
24 available and cheap.

25 We've also seen nation-wide a deterioration

1 in the gas pipelines. So I'm not quite as confident
2 from what I've been reading in the security of our
3 supplies as the LG&E people are because we have seen
4 an increasing number of gas line failures nation wide
5 over the last decade as these -- as this
6 infrastructure that gets a more deteriorated condition
7 the incentives in a deregulated climate are to let
8 things go and then pass on the costs plus to the
9 consumers. And I think this is a situation we're
10 seeing today.

11 They talked about the additional well
12 drilling we see now over last year. However, if we
13 had kept a regulated climate where they had to provide
14 services and be more proactive in ensuring that
15 supplies were there and available at a costly manner
16 then I think we would not have seen us get into the
17 position that would have been more aggressively
18 seeking out the reserves that we know are there over
19 the course of the last decade.

20 My question would have been, how many wells
21 drilling -- you know, well drillers were busy ten
22 years ago as opposed to last year. So I think that
23 although we've got the situation we -- we're stuck
24 with the situation we have now, I think we need to
25 recognize that deregulation has not been what's it's

1 been cut up for and we're going to be looking at --
2 there's been pushes by utility companies for
3 electrical deregulation as well. I think we have to
4 understand the impacts of those movements as we try to
5 address this problem. Deregulation is being pushed by
6 the companies because it's profit for the companies.
7 Thank you.

8 MR. HUELSMANN: Thank you very much. We
9 need to take another five-minute break, at the most,
10 to change the tape.

11 (OFF THE RECORD)

12 MR. HUELSMANN: Okay, if we can take our
13 seats we'll continue with -- we'll continue with
14 public comments. The next person is Mr. Walter Lay,
15 that's spelled L-A-Y.

16 MR. LAY: That's right. I'm the director of
17 Project Warm and we're a private non-profit
18 corporation that's been helping low-income people with
19 their utility bills for 18 years now here in
20 Louisville and Jefferson County. Our form of helping
21 is with energy conservation, weatherization. We do
22 things to help lower their utility bills.

23 Earlier Mr. Blake mentioned that LG&E was
24 going to be helping us this winter to winterize 300
25 homes. That's the Project Warm blitz that we're doing

1 for the 10th year this year. And we are targeting 300
2 homes of elderly and disabled people with our blitz
3 level of service, which involves covering windows with
4 interior plastic window covers that keep out the cold
5 and doing some caulking and major air sealing.

6 In the 18 years that we've been operating
7 here we've gained some knowledge of how heating can be
8 a burden for the people in this community. In a
9 report that was done for the New York Public Service
10 Commission it was found that the average household in
11 the United States pays about three percent of their
12 income for utilities, whereas the average low-income
13 household in the United States pays about ten percent
14 of their income for utilities.

15 A study was done here in Jefferson County a
16 few years ago that found that although our rates are
17 lower here than most of the country, the low-income
18 people in Jefferson County pay over 20 percent of
19 their income for utilities. And that was a
20 calculation that was done prior to the gas price
21 increases that we're seeing.

22 One of the things that can address this
23 need, this situation, is weatherization. And in
24 addition to the Project Warm blitz that we're going to
25 be doing this winter I'm going to tell you a little

1 bit about a project that we completed recently where
2 we were targeting the all season insurance program
3 participants with the highest utility bills. And with
4 this program we provided energy education services,
5 attic insulation, wall insulation, duct sealing, and
6 other major air sealing.

7 For the homes that we served with this
8 project, which was funded in part by Metro United Way
9 and part by Affordable Energy Corporation and United
10 Hunger Relief, we did before and after heating
11 calculations and the average savings was 35 percent on
12 the heating side.

13 A couple of the homes that I visited to do
14 follow-ups on we saw even more dramatic results. In
15 one case their equal monthly payment plan amount went
16 from \$201 down to \$113.

17 Another family we saw their EMPP amount went
18 from \$253 down to \$75. Now that's a savings of well
19 over \$1,000 a year. That's the kind of thing that can
20 be possible for low-income households with especially
21 high utility bills.

22 The bad news is that the funding for that
23 program has run out. And at this time we're now
24 seeking funding to try to continue providing that
25 level of service to people with especially high

1 utility bills.

2 MR. HUELSMANN: Thank you very much. The
3 next person is Mr. Terry Tapp, T-A-P-P.

4 MR. TAPP: I'm not representing anybody but
5 myself, Terry Tapp.

6 MR. HUELSMANN: Sit in the middle chair, if
7 you would. That way we'll pick it up much better.

8 MR. TAPP: Okay. Yeah, I work as a welder,
9 steel fitter in town, and last winter my wife gave
10 birth to our first child. We couldn't afford to pay
11 the heating bills then. We live in an old house, we
12 rent it, the landlord's crud and won't take care of
13 it. Most of the guys I work with already can't pay
14 their heating bills. We've all been talking about it
15 at work. Nobody knows what they're going to do.

16 I've chain sawed up a bunch of wood, which I
17 used last winter. And last winter when we couldn't
18 pay the bill I had already taken two jobs -- actually
19 three, one's part-time. I went to a bunch of
20 different agencies. I don't know what illusion people
21 are under, but the agencies that are out there may
22 help a small portion of the people. But most of the
23 people, most working people in Kentucky are desperate.
24 Are already desperate. So you already got a crisis
25 going on.

1 And if we spread our bill out over the rest
2 of the year it's basically like being hit by a 50-
3 pound rock every month instead of a 300 pound one
4 month or two out of the year.

5 Right now the main crisis I see is that
6 there's a lot of wealth in Louisville and almost none
7 of it is going to the working people, the slaves that
8 keep this things running. If I understand correctly
9 you've got 75 years worth of gas bought already. And
10 I may be misunderstanding this, but we already have a
11 stockpile of gas. We have a situation where working
12 people cannot afford to pay the bills right now. I
13 know guys who have stolen groceries and I don't see it
14 as a viable option to turn off the electricity and sit
15 in the dang dark for heat. That's ridiculous.

16 But we already have a crisis and we already
17 have folks out there not being able to pay those
18 bills. If this 70 percent, 50 percent, even 10
19 percent increase goes through you're going to violate
20 a basic rule of economics. And that is when you have
21 slaves that do the work that keep a wealthy class
22 going you've got to at least keep them happy. Keep
23 them in heat, you know. And most of Kentucky is
24 slavery.

25 I know, I work construction jobs all over,

1 and I'm not being facetious, I'm just making a point.
2 I came home two weeks ago, my little boy's hands were
3 as cold as ice. I put him in front of the fire. We
4 have an old broken down fireplace, one of those
5 utilitarian Victorian. You know, we've raised him on
6 vegetables I've grown, no pesticides, tried to work
7 three jobs so his mom could stay home with him, and
8 how he's freezing himself to death.

9 This winter he will have heat. I think
10 universal service fund is a good compromise to us just
11 taking over the industries and keeping ourselves warm
12 any way we need to.

13 But I would urge people to put something
14 like this in. It's not just a crisis for working
15 people, just to finish up here, it's a crisis for the
16 wealthy of this state that use us. If they want to
17 keep their lifestyles -- I drive out to the east end
18 to do some construction jobs -- I see Jaguars and
19 minivans and SUV's. If the east end and Anchorage and
20 those places wants to keep using the rest of
21 Louisville and Kentucky and slaves we've got to have
22 heat. Thanks.

23 MR. HUELSMANN: Thank you.

24 MR. HOLMES: Thank you.

25 MR. HUELSMANN: The next person is Mr. Brad

1 Castleberry.

2 MR. CASTLEBERRY: My name is Brad
3 Castleberry, that's C-A-S-T-L-E-B-E-R-R-Y. And I came
4 here, I knew that all my colleagues and friends and
5 fellow citizens would be talking very eloquently about
6 the facts and figures of what's going to happen if we
7 have a rate increase. And I think they've done an
8 eloquent job. I think they've been convincing and I
9 think the evidence has been compelling. Don't you
10 agree?

11 Well, anyway, what I want to do is I want to
12 speak just really from my gut about as an observer of
13 what I've seen as the oppressiveness of high utility
14 rates. I'm the director of a Homeless Families
15 Prevention Program of Family and Children's Counseling
16 Centers.

17 What's going to happen if rates increase?
18 Well, one, is we know for sure that LG&E profits will
19 increase. But as an observer I will also tell you --
20 it's a no-brainer to tell you that human misery and
21 suffering are going to increase. I mean that's just a
22 bottom line. And I think you just heard a most
23 poignant story you could ever hear about how that's
24 happening and how it's going to continue to happen.

25 The clients that enter our program are

1 termed as clients who are at risk of being homeless.
2 It's sort of a misnomer because most of our clients,
3 almost all of our clients, are doubled up with
4 families and friends. They are people who are living
5 in squalid living conditions and substandard living
6 conditions.

7 None of the people that come through our
8 program are earning a living wage. They're just
9 getting by. And they're just getting by with just a
10 little help. And that's where we turn to you folks.
11 You know, they just need a little help, and a rate
12 increase is not going to do it. It's not a help. It
13 actually blows a hole in their attempt to reach a
14 level of self-sufficiency. It creates in them a very
15 real sense of misery and suffering. And that's what
16 happens. They don't deserve another demand on their
17 already dwindling monetary resources.

18 You know, I always thought the most virtuous
19 part of corporate responsibility to a community is the
20 acknowledgement of and the response to the needs of
21 the most vulnerable of our community. And that's what
22 we're asking you to do is acknowledge and respond to
23 the needs of the most vulnerable in our community.

24 This rate increase ignores that need.
25 Simply, I ask, don't raise the rate. Join with us,

1 all of us, as we work together to move forward all of
2 us together. Thank you.

3 MR. HUESLMANN: Thank you. Ms. Christine
4 Jones.

5 MS. JONES: Good evening. Thank you for
6 giving us the opportunity to come and speak to you.
7 My name is Christine Jones, and I am with the
8 organization called Kentuckians for the Commonwealth.

9 A couple of comments I want to make is for
10 me personally. When I was a young teenager and was
11 not quite in school yet and was just barely making
12 minimum wage I've had my LG&E cut off in the middle of
13 the wintertime. I've often heard LG&E say that they
14 don't do that, but that's not true. That happened to
15 me.

16 And when it happened to me I was very sick
17 and I had no health insurance. It happened anyway.
18 And when I called LG&E to complain about it and say,
19 well, I can't afford to pay it, they demanded that I
20 pay it before they turn it back on. So I went a
21 couple of days without heat. I think that's
22 completely wrong. It's inhumane.

23 Secondly, now I'm considered -- you know,
24 I've been through college, I have two jobs, I work my
25 butt off and I'm considered middle class, I'm still

1 having a hard time paying my LG&E. And if I'm having
2 a hard time paying it I know that poor people are
3 having a hard time. So this is just a human issue.

4 A couple of comments I'd like to make about
5 LG&E, a couple of things that I find pretty appalling
6 is for one, LG&E recently gave about \$100,000 to the
7 Pro-merger Unity Group. A merger in our opinion is
8 going to take the power base away from poor people.
9 So on top of that I just -- it would just seem to me
10 that you're going to support merger and then at the
11 same time you're going to raise the rates. I mean
12 poor people are really going to have a hard time.

13 Secondly, I don't really think it's a choice
14 between giving people the choice between gas or
15 electric; cutting off the gas or electric is not
16 really a choice. My heater -- it's a gas heater but
17 it has to have electricity to run. So that's not
18 really a choice.

19 And then a couple -- a comment to you all.
20 I heard that there was something in the paper
21 complaining about how not many people, not many of the
22 citizens have expressed interest in this issue. And I
23 just want to ask you all in the future if maybe we
24 could get more notice about some of these public
25 hearings. I understand that the first notice went out

1 September 25th and this is already the third hearing.
2 And I just think we could use a little bit more
3 notice.

4 So the last thing is that these gas prices
5 that are going up is going to create a crisis along
6 with the raise in -- the raise in rates. And so I
7 just want to encourage you all to support a universal
8 service fund. We need one. Poor people need one.
9 Middle class people need one. Thank you very much.

10 MR. HUELSMANN: Thank you very much. It's
11 awful hard to sit up here with Vice Chair Holmes and
12 not respond to things. And I hope you appreciate the
13 fact that we really can't respond at this point. But
14 as to one thing, I'm going to make an exception, we
15 started to advertise and do some publicity in around
16 June or July on this issue. We've been working on it
17 since the Spring, the high prices.

18 As to the fact that publicity didn't get out
19 about this hearing until late was purposefully because
20 we put the order on one day and we started the
21 hearings, literally, within about three weeks. We had
22 to give the companies time to respond. And as a
23 further reason, we wanted to get this matter hopefully
24 decided before cold weather got here. So we apologize
25 for the quickness that this has occurred from that

1 standpoint.

2 With that in mind, the next person is
3 Reverend Louis Coleman.

4 REV. COLEMAN: Thank you for the opportunity
5 to share with you a few concerns. We never have been
6 happy with LG&E. I'm hearing all these -- some of
7 these positive things about LG&E and its programs.
8 For 20 years we've been coming to the Public Service
9 Commission about this company. In fact, they come
10 into this meeting too comfortable. They ought to be
11 made to feel uncomfortable when they come into --
12 before the Public Service Commission because they have
13 gouged and gouged poor people and people in general
14 more than any utility company in the State of
15 Kentucky.

16 And now they're owned by a company, a
17 foreign company. And the foreign company says things
18 are going to get better. Now is this is an indication
19 of getting better then we're in a world of trouble.
20 So we reject any pay hike, any raises of -- any raises
21 of the utility bill that they even consider.

22 I would hope that the Public Service
23 Commission would get some teeth in your guidelines so
24 that you can at any hearing tell them a resounding no,
25 we're not going to raise the utility bills of the

1 citizens in this community. I really wish that could
2 be done at the next General Assembly. It needs to be
3 done because this is -- the utility company has done
4 more harm to families in this city than any other
5 utility company.

6 I also hope that if you can't do it now,
7 work with Senator Gerald Neal or any other senator or
8 state representative to get some type of teeth in the
9 guidelines that you all have. You could you get an
10 executive order from the governor that the governor
11 would stop any pay -- any hikes of utilities on people
12 in the community.

13 I think you really need to look at the
14 salaries of the executives of LG&E. They probably
15 make some of the highest salaries of people in the
16 State of Kentucky. And any pay -- any utility raise
17 that they're talking about could be paid by some of
18 the salaries of some of those executives.

19 Finally, I just want to thank you again. I
20 think you all feel the pain that we feel as people. I
21 work with poor folk every day. I word with middle
22 class folk every day. And the bottom line, most
23 people can't pay the utility bills. Most folk. And
24 this company is consistently in here for the past 20
25 or 25 years. They are the ones that want to

1 constantly raise utility rates on people.

2 We don't have that problem with the water
3 company. Of course, just recently they went up. But
4 we're having the problem with LG&E for the past two
5 decades. I do hope you hear our concerns. And I
6 think those concerns need to be taken in very
7 sincerely that another utility hike by this company
8 shares with us that the new company that's coming to
9 town -- is suppose to be not in town, but if these are
10 the orders that they are sending down it's criminal.
11 It's absolutely criminal. And if this is what we are
12 to expect then it's going to happen not only with me,
13 my generation, but it's going to happen with my
14 grandchildren and my grandchildren's children.
15 They're going to continue to do it until this Public
16 Service Commission says no, you can't do it.

17 Commissioner Holmes, I read your comments in
18 the paper where you said we don't have the teeth;
19 please get the teeth to stop these folks from gouging
20 our citizens. And I just appreciate you two being
21 here, coming out here and hearing some of the pain.

22 That brother over there in the green shirt,
23 he's right on target. He's right on target. And he
24 said it like it should have been said. And we're not
25 out here trying to get some money from you, because at

1 the same time you're going to raise that utility bill
2 and then you're want to help people pay the utility
3 bill? Something wrong with that kind of mentality,
4 something wrong with that kind of mentality.

5 Then your boss makes close to a million
6 dollars a year and you want to raise the utilities on
7 poor people. Something's sick about a mentality like
8 that. They need to be stopped. They need to be
9 stopped. The wrong people in jail. Thank you very
10 much.

11 MR. HUELSMANN: Thank you, Reverend Coleman.
12 Next person is Robert Krutcher. He left. Next one is
13 William Wells.

14 MR. WELLS: I've been told to keep it to two
15 minutes and I'll try to do that. My name is Bill
16 Wells, and I live at 400 South 8th Street in public
17 housing. In my past I have worked for the Oklahoma
18 State Energy Department in the fuel allocation
19 program. And I was hired for the City of Tulsa's
20 energy management program. And I moved over there on
21 the good faith of the public official, but they hired
22 me without getting approval by the city commission. I
23 was fired after one day.

24 I come before you this evening because part
25 of it, when I moved into public housing last year the

1 cooling, the air conditioning/heating did not work.
2 And I tried to get the heat turned on, and after
3 several efforts and appeals to the management of
4 public housing ended up having to go to the federal
5 office of HUD to get the heater replaced in the mid of
6 winter.

7 It is a disgrace to see cities sprawl and
8 require more energy consumption when we can't even
9 have our public systems capitalized, maintained, and
10 sustained to take care of and guarantee the health,
11 the safety, and welfare of people who spent their
12 lives working for corporate systems.

13 In this diagram or chart which was passed
14 out, it just shows an average person below a bar of
15 five. Then the person gets stretched out with a 27
16 percent increase. In some ways it's almost an
17 illusion to do that because you also have information
18 here where the hand out of the sky rains money down on
19 the house.

20 The Courier Journal publishes pictures that
21 convey bags of money falling down on people's houses.
22 But the real part I think -- and challenge to be brief
23 and to keep it to two minutes is that, one, the policy
24 that you are creating and allowing to occur is about
25 the quality of people's lives. And when the quality

1 of that policy is not carefully thought through, you
2 allow the train to lead the round house without
3 providing adequate structure to accommodate
4 fluctuations in market prices, social policy, and
5 political policy.

6 You people in the public system and Public
7 Service Commission are responsible for the public, the
8 public's utilities. And too often the people behind
9 you that come before you affect the deepest essence of
10 what it means to be human, to be alive.

11 There is a political reality, there is a
12 social, thermodynamic reality, and there is a reality
13 of people who have different incomes from different
14 walks of life. And too often times when Mr. Koons
15 (Phonetic) or other economists look at the rapidly
16 increasing change at which communities are changing in
17 structuring their economies things are not
18 incorporated or looked at very carefully.

19 It is a profound experience to hear --
20 talking about crisis next year or this winter when
21 every day is a crisis for some just to live.

22 In essence and somewhat the bottom line is
23 that there really are no black people. There are no
24 white people. There's certainly no average person in
25 this room this evening. But we are citizens and we're

1 living in a world that is increasingly becoming more
2 engineered and a lot of minds are getting pulled in to
3 an electric web. A lot of decisions are being made
4 that don't recognize and understand that Kentucky,
5 West Virginia and Virginia have supplied Japan with a
6 third of its coal requirements. But the
7 capitalization of the cities and the counties which we
8 live are not reflected accurately and the architecture
9 and design of communities.

10 There's a lot of work that's been done in
11 alternative energy systems. And if you'll look at the
12 Financial Times in the last week it references one
13 Amery Lovins (phonetic) who talks about the energy
14 policies in California which were put into place
15 which, are addressing the matching of resource use
16 with the task in hand. But as you can look at homes
17 and cities -- cities themselves are heat sinks. They
18 lose a lot. And a lot of lives are lost poorly
19 designed, operated, and sustained communities.

20 Another facet and perhaps one to tie this
21 together is that sometimes I have the audacity to
22 think that if the public knew what Rev. Coleman knows,
23 what I know, what the laborer spoke about knows -- if
24 it was understood from the heart in one mind you would
25 probably have a Belgrade here and not just in

1 Yugoslavia. It is an obscenity to have hearings
2 without due process and healthier public policy which
3 structures in simultaneously policies that affect and
4 incorporate the shaping of civilizations and healthier
5 manners.

6 One last point, and perhaps it might help,
7 but I grew up in Arkansas and I knew a man who's an
8 economist that served on the Public Service
9 Commission. His name is Keith Barry (phonetic). He
10 now teaches at Hendricks College. But truly the
11 science of economists is not explicit. It's a bridge
12 that's occurring between science and religion, physics
13 and economy. But the nature of watching this unfold
14 -- I came over to Frankfort when you all were having
15 hearings on the acquisition, selling of LG&E, but I've
16 never seen anything occur and occur so rapidly as this
17 train and watching this utility not honor its
18 relationship to this city and its citizens. It's a
19 sad testament.

20 You all do have an obligation. You can hold
21 things up. You can review them more carefully. And
22 you can bring the pressure to bear that brings
23 policies into place that guarantee a future and not
24 just an end. Too many people's lives perish in the
25 cold. I appreciate the cold glass of water and I

1 thank you for the two minutes.

2 MR. HOLMES: Thank you.

3 MR. HUELSMANN: Thank you, Mr. Wells. The
4 next person is Mr. Mark Isaacs.

5 MR. ISAACS: Thank you for the opportunity
6 to be with you tonight. My name is Mark Isaacs. I'm
7 an architect and a builder. I'm one of the founders
8 of Project Warm Home Weatherization Program that's
9 been very successful in weatherizing some 14 maybe
10 we're up to 15 or 16,000 homes in Jefferson County
11 over the past many years. I'm a member of the
12 Metropolitan Housing Coalition. And I run a company
13 called Legacy Homes that's very active in the building
14 of affordable housing in our community.

15 When I read that we are facing natural gas
16 price increases that could be as high as 70 percent or
17 more in the very near future, I become convinced of
18 the absolute necessity of developing some effective
19 universal service program. And I'm also more
20 convinced than ever of the absolute necessity of
21 reinstating utility funded full service
22 weatherization for low and moderate-income members of
23 our community. The Project Warm Energy Partners
24 Program that we ran with Louisville Gas & Electric was
25 an extremely successful program in terms of its

1 outcomes. And I think that even though we are facing
2 a more deregulated environment, I think it's incumbent
3 upon all of us to revisit the real results that were
4 provided to members of the low-income community
5 through that program in the face of these rising gas
6 prices.

7 The particular cycle of causation that I
8 would like to bring your attention to which disturbs
9 me, and I understand the Public Service Commission is
10 only making a decision about gas rates -- but I want
11 to put in the context of what the incredible impact of
12 rising gas rates has for our entire community.

13 When gas -- when heating cost go up for the
14 average low-income community or low-income family,
15 there is a tremendous impact on the actual
16 affordability of housing. Tremendous -- what will
17 happen as a result of increased utility cost is we
18 will see housing affordability decrease, and our
19 neighborhood stability, the stability of our
20 neighborhoods will decrease. When someone can't
21 afford the rent, when they get behind on the rent they
22 have to move. And what happens in that endless cycle
23 of people turning over in terms of their tenancies,
24 and I have -- I see this day to day -- is that the
25 educational outcomes of children coming from those

1 families is also affected.

2 There's been some recent research that was
3 published in the New York Times that I would ask you
4 to pay some attention to that demonstrated that one of
5 the -- that the reality of affordable housing and of
6 which all of a sudden energy is going to become an
7 increasingly important component, is that it really
8 ends up affecting the educational outcomes of our
9 children.

10 A child that lives in three or four
11 different homes in the course of a given school year
12 is going to have a very tough time adapting to life at
13 school and have a very tough time creating an economic
14 future.

15 So the -- this again really underscores the
16 reason, I think the fundamental causalities of why we
17 need to develop some kind of effective universal
18 service program. We're dealing with a cycle of
19 causation of higher energy prices, decreasing housing
20 affordability, decreasing neighborhood stability,
21 decreasing educational outcomes in our children, and
22 decreasing the economic future of our entire
23 community. And we need to make sure that that doesn't
24 happen.

25 I would urge you -- you know, I have not had

1 the opportunity to do the kind of rigorous research
2 that would be required to assess what that potential
3 impact is on a low-income community in Louisville and
4 Jefferson County. There are better minds than mine
5 that can do an effective job of that. But I would
6 urge that you require that that study be done. Thank
7 you very much.

8 MR. HUELSMANN: Thank you, Mr. Isaacs. That
9 is the last name on this list. As I mentioned before,
10 if your -- if you would like to speak as a public
11 member at this point, feel free.

12 No? Okay. Without anyone saying anything
13 we'll now go to the public comments. And this is
14 where we're going to hear from the cabinets and other
15 individuals. So the first one is the Cabinets of
16 Families and Children and well as the KACA, Mr. Cliff
17 Jennings and Mr. Kipp Bowmar.

18 MR. JENNINGS: Thank you. My name is Cliff
19 Jennings, I'm with the Cabinet for Families and
20 Children Department for Community Based Services. We
21 heard it tonight very clearly the issues of buying
22 fuel or buying food, buying fuel or buying medicine.
23 And these are hard choices that low-income families in
24 this commonwealth for senior citizens and persons with
25 disabilities will have to face and make this winter.

1 These are not choices that we should be willing to
2 accept.

3 The Cabinet for Families and Children
4 administers the low-income home energy assistance
5 program state-wide, and contracts with the Kentucky
6 Association for Community Action and through them the
7 23 community action agencies for the operation of this
8 program in all of Kentucky's 120 counties.

9 We're deeply concerned about the
10 rising cost of fuel, especially the cost of natural
11 gas for the low-income citizens of the Commonwealth.
12 There are increasing indications that the cost of all
13 the fuels are going to increase this winter. Some are
14 predicted to go as high, state-wide average, 50
15 percent or more from last winter. And the lives of
16 the elderly, the low-income, persons with disability,
17 families with young children will all be dramatically
18 impacted.

19 Studies show that between 14 and 18 percent
20 of a low-income household's income is spent on their
21 home heating cost -- of the total household income.

22 Conversely, other households spend between
23 three and a half and seven percent of their income on
24 home heating costs. Studies also show that the
25 elderly are more likely to pay their heating bill at

1 the expense of food and medicine.

2 Nationally, the Low-Income Home Energy
3 Assistance Program is insufficient to meet the needs
4 or demands, especially when faced with these increased
5 energy costs. Under LiHEAP in Kentucky only those
6 households who have income below 110 percent of
7 poverty are eligible for help. And those who are
8 above 110 percent of poverty are not eligible.
9 They're not able to receive any help under this
10 program.

11 Last year in our subsidy component we served
12 over 94,000 households state wide, and the average
13 benefit was \$92. For natural gas the average benefit
14 was even less. That average was \$82.

15 In our crisis component for households who
16 were without heat or soon would be without heat the
17 maximum benefit for natural gas was \$100. In our
18 crisis component we served last year 48,000
19 households.

20 Individuals, especially the elderly, are
21 becoming worried and even frightened about the
22 prospect of these higher heating bills this winter.
23 They have heard the news reports. They are concerned.
24 One senior citizen states, I am on a fixed income and
25 cannot save for big increases in my gas bill. My

1 medications cost almost \$300 a month. What am I going
2 to do?

3 Kentucky is faced with significant funding
4 issues. As I said, only those with income below 110
5 percent of poverty receive help with LiHEAP. The
6 benefit amounts only cover a small portion of the
7 winter heating bills.

8 Now, many have heard that President Clinton
9 has released funds that are emergency funds for LiHEAP
10 and he did that in advance of this winter's crisis.
11 But this is money that was already built into the
12 appropriations. It's not new money.

13 Our most vulnerable populations who are
14 dealing with fixed and limited incomes are struggling
15 with these increased energy costs. We cannot do it
16 alone. We need community involvement in addressing
17 this issue so that no one has to choose between buying
18 fuel or buying food; buying fuel or buying medicine.

19 The Cabinet for Families and Children is
20 speaking out about this issue. We're facilitating
21 two other meetings throughout -- in different parts of
22 the state as well as attending these Public Service
23 Commission hearings. At all of these meetings we're
24 asking for community resources to become more involved
25 and to lend a helping hand with this situation.

1 Governor Patton joined with other governors
2 to ask the President to release these emergency funds
3 in advance of the winter, and the President did so on
4 September 23rd. The President released 400 million
5 dollars. Kentucky's share of that is 4.7 million.
6 But, again, this is a small amount of money compared
7 to the great need in terms of also the level of
8 benefits that we can pay.

9 We are supporting increased funding at the
10 federal level for LiHEAP and weatherization program
11 which is a long-term solution to many household's
12 energy problems. And we are encouraging citizens to
13 make contributions on their monthly utility bills for
14 Winter Help, which will assist the low-income
15 households.

16 We do appreciate the work of the Public
17 Service Commission in holding this hearing. It is an
18 opportunity for all of us, state agencies, local
19 agencies, energy providers, public groups and
20 organizations, as well as the citizens to come
21 together and begin working together so that our
22 friends and neighbors on fixed and limited incomes do
23 not have to face these difficult choices.

24 The state and community action agencies
25 cannot do it all. There must be a coordinated effort

1 state wide. Therefore, we are asking that all
2 community resources to help, from elected officials to
3 church groups to the private sector to the utilities
4 to civic organizations, private citizens to all come
5 together to help keep someone from freezing this
6 winter. And that is including things such as
7 providing blankets, electric space heaters, emergency
8 shelter, and assisting a person with paying their
9 utility bill.

10 The community resources already help.
11 You've much of that today of what's happening here in
12 Louisville, but we need to do more. And we'd like for
13 all of -- everyone to dig deeper to help more. Thank
14 you.

15 MR. HUELSMANN: Thank you, Mr. Jennings.
16 Mr. Bowmar?

17 MR. BOWMAR: Thank you, Mr.
18 Chairman. My name is Kip Bowmar and I'm the executive
19 director of the Kentucky Association for Community
20 Action. We operate the low-income home energy
21 assistance program or LiHEAP, as it's called, with a
22 grant from the Cabinet around the state that operate
23 the LiHEAP program, and 22 of those agencies also
24 operate the weatherization program.

25 As Cliff said, we are not able to address

1 all of the needs even with the 4.7 million dollars and
2 extra benefits that we have received from the LiHEAP
3 program for this coming heating season. We will be
4 able to serve approximately 150,000 households.
5 That's our estimate. But how many will be able to
6 serve this winter? By some studies about 300,000 are
7 at or below the poverty line in the State of Kentucky.
8 And even if that number is a little high that means we
9 can help approximately one out of two eligible
10 families. Even counting that there are a number of
11 families who are between 110 percent of poverty and
12 200 percent of poverty for whom they are not eligible
13 for LiHEAP and resources will not be available to help
14 them.

15 And I certainly salute what LG&E is doing in
16 terms of increasing their contribution to Winter Help
17 and the \$200,000 and maybe it will be 3 or 400,000
18 this year will go along way towards helping people.
19 But if you still look at all the fuel funds combined
20 in the state, if you added them all up they would
21 probably be less than \$500,000 for every fuel fund in
22 the state as compared to an average LiHEAP annual
23 allocation of about 11 million dollars in benefits.
24 So there is a great deal of unmet need, and that's one
25 of the reasons that we believe that a universal

1 service fund can go a long way toward addressing those
2 needs because it can be targeted in many areas. It
3 can be targeted on monthly bill payment assistance to
4 foster more responsible bill paying, on weatherization
5 which addresses the long-term needs by reducing
6 consumption, and by one time emergency assistance in
7 addition to LiHEAP to help low-income working
8 families.

9 Thank you very much for the opportunity to
10 be here this evening.

11 MR. HUELSMANN: The next person is from the
12 Natural Resources Environmental Protection Cabinet is
13 Mr. John Davies, the director of the Division of
14 Energy.

15 MR. DAVIES: I'm John Davies from the
16 Kentucky Division of Energy which is part of the
17 Kentucky Cabinet for Natural Resources and
18 Environmental Protection.

19 And first I'd like to thank the Public
20 Service Commission for allowing us to comment this
21 evening. It's been a very full evening and because of
22 that my remarks will be brief and hopefully helpful.

23 The Division of Energy through its
24 partnership with the United States Department of
25 Energy has helped Kentucky schools and hospitals save

1 an average of 25 percent on energy costs in more than
2 1,100 buildings. We've developed an energy efficiency
3 program for state government buildings, promoted the
4 use of alternative fuel such as compressed natural gas
5 and ethanol, and we've prepared for and responded to
6 energy emergencies to lessen their impact.

7 These are just a few examples of our
8 programs. While our mission remains the same, our
9 focus changes from time to time to respond to energy
10 issues and challenges.

11 As a non-regulatory state agency the
12 division works with others on a voluntary basis to
13 ensure that energy emergency issues are resolved. We
14 promote contingency planning on both the part of
15 individuals and organizations to anticipate and reduce
16 the impact of energy problems.

17 Most everybody recalls the efforts to
18 prepare for the new millennium. The Division of
19 Energy was one of the key agencies working on an inner
20 agency task force to plan for energy problems that
21 could have resulted in Y2K -- from Y2K.

22 We have also partnered with the Division of
23 Emergency Management, energy suppliers, other states,
24 and the federal government to resolve energy supply
25 and distribution problems caused by severe winter

1 conditions. We did this as recently as January 2000,
2 and I see our current situation as requiring a similar
3 effort.

4 The Division, in conjunction with five other
5 state agencies, has formed a winter fuels working
6 group to determine how best the state can help prepare
7 for potential energy challenges ahead. The other
8 agencies are the Public Service Commission, the
9 Kentucky Division of Emergency Management, the Office
10 of the Attorney General, the Cabinet for Families and
11 Children, and the Cabinet for Economic Development,
12 all under the purview of the governor's office.

13 Our winter fuels working group will address
14 such issues as attaining reliable information on
15 energy supply, demand, and prices throughout the
16 Commonwealth, reviewing and updating Kentucky's
17 existing emergency operation plans as they relate to
18 energy supply, coordinating the appropriate response
19 among state agencies and working with other states,
20 the federal government and non-governmental
21 organizations to implement solutions.

22 This hearing specifically focuses on natural
23 gas. But all of us who have bought gasoline, read the
24 newspaper, or heard a news broadcast in the past
25 several weeks are well aware that the cost of oil is

1 at near record highs. The prices for petroleum
2 products whether they're gasoline, heating oil, diesel
3 fuel or propane are determined on the world market.
4 And this market has risen steeply.

5 In less than -- less than two years ago a
6 barrel of oil sold for about \$10 a barrel. In recent
7 weeks that same barrel of oil has brought nearly four
8 times that much. Tight supply and higher natural gas
9 costs may lead to even higher prices for our other
10 heating sources such as heating oil and propane.
11 Together these three products, heating oil, natural
12 gas, and propane, heat 59 percent of Kentucky homes.

13 While heating cost may be up 20 to 40
14 percent this winter, we can save an equal amount by
15 adopting energy saving practices. Let me share some
16 of these common tips with you. And I must admit that
17 these are not glamorous, but they do work and they
18 have a proven track record.

19 Just as a side note, we've brought
20 publications with us that are on the outside. And
21 these also have other energy saving advice in them.

22 First, keep your furnace tuned in top
23 condition. Proper maintenance of your furnace will
24 save six to ten percent on your heating bill.

25 Weatherize your home to prevent heat loss.

1 Apply caulk and weather stripping around your windows,
2 outside doors, or where plumbing and electrical wiring
3 penetrate exterior walls, floors, or ceilings. By
4 sealing leaks you can save 10 to 25 percent on your
5 heating bill.

6 Control temperature in your home. Keep the
7 thermostat on the lowest setting in which you are
8 comfortable. Each degree you lower your thermostat
9 can save two to three percent on your heating bill.
10 If you set your thermostat back from 72 degrees to 64
11 degrees for eight hours, those hours when you're away
12 from the home during the day, you can save five to ten
13 percent on your heating bill. Use a programmable
14 thermostat so there's no need to adjust your
15 thermostat yourself. The energy savings will pay for
16 the cost of the programmable thermostat in the long
17 run.

18 Add insulation to your attic. Most Kentucky
19 homes should have at least an R30 insulation level in
20 the attic. If you increase your R19 insulation to R30
21 you can save 15 percent on your heating cost.

22 Water heating typically accounts for 14
23 percent of your utility bill. Repair leaky faucets
24 insulate water heater tank and the hot water pipes and
25 set your water heater thermostat to 120 or low and

1 install low flow faucets and showerheads.

2 On sunny days let the sun help. Open
3 curtains and shades to allow the sunlight to enter
4 your home and then close them in the evenings to
5 retain heat.

6 Use kitchen, bath and other ventilating fans
7 wisely. Turn them off when they are no longer needed.
8 In one hour these fans can pull out a house full of
9 warmed air.

10 When the fireplace is not in use keep the
11 flue damper tightly closed. Fireplaces are not
12 efficient sources of heat. Although they warm the
13 surrounding area, they also draw much of the heat in
14 your house up the chimney. Just as a reminder, if you
15 use your fireplace have it inspected annually.

16 Adopting these measures can help lower your
17 cost of heating your home while increasing your
18 comfort during the winter. Other measures you can
19 take to reduce your energy costs include buying high
20 efficiency energy star labeled products when replacing
21 appliances and equipment and changing your
22 incandescent light bulbs with compact florescent light
23 bulbs.

24 Many of these energy saving tips such as
25 adjusting thermostats, reducing hot water

1 temperatures, sealing duct work, and performing
2 routine maintenance on furnace equipment apply to
3 businesses and industry as well. Asking employees to
4 help off by turning off lights in unoccupied areas,
5 keeping exterior doors closed as much as possible, and
6 turning off machines and equipment when not needed can
7 generate significant energy savings.

8 If you are a commercial or an industrial gas
9 customer on an interruptible contract, be sure your
10 standby equipment is working properly and you have
11 adequate supplies of standby fuel on hand or under
12 contract for delivery.

13 Remember, in the unlikely event that we do
14 experience actual shortage of natural gas, other
15 interruptible customers are going to need the same
16 fuels that you will need. Also be sure to stay in
17 close contact with your standby fuel supplier.

18 As I said, energy conservation is not
19 glamorous but it works. Those in our communities who
20 can at least afford higher energy prices might be
21 faced with difficult decisions. We recognize the
22 choices many low-income households will face. Pay for
23 food or pay for energy or medication or life's other
24 necessities.

25 There are no easy answers, especially in the

1 short run. All of us together need to start taking
2 those actions which will make us less dependant on
3 foreign oil and more energy self-sufficient. Energy
4 efficiency and conservation are steps in that
5 direction.

6 This concludes my comments for this evening.
7 I thank you for your time.

8 MR. HUELSMANN: Thank you very much, Mr.
9 Davies. The next person to speak is from the Public
10 Service Commission. Our Division of Consumer Services
11 director could not be here, but Aaron Greenwell is
12 here and he's the director of our Financial Analysis
13 and he'll give a short presentation.

14 MR. GREENWELL: Thank you, Mr. Chairman. My
15 name is Aaron Greenwell. I'm the director of the
16 Financial Analysis Division at the commission. I'm
17 here on behalf of the Division of Consumer Services
18 and I'll be brief.

19 I want to bring everybody's attention to a
20 handout that it on the table out there. It lets you
21 know how to get in contact with the Public Service
22 Commission. We can be reached by several different
23 means, by fax, you can walk in; we can be reached by
24 mail and regular telephone.

25 Tonight I want to bring your attention to

1 two other ways. We can be reached via the -- our
2 website and the utility consumer hotline. And the
3 website includes two links to the Consumer Services
4 Division where you can file an informal complaint.
5 And also in most cases the utility consumer hotline
6 goes directly to the Consumer Services Division.

7 If you do have a complaint or you feel that
8 you have a problem with some other aspect of your
9 utility service, I would encourage you to first try to
10 work it out with the utility. If you're not
11 successful, feel free to contact the Consumer Services
12 Division. They're not able to resolve all of the
13 complaints, but most of those are resolved to most
14 people's satisfaction.

15 Once again, we can be contacted via the web
16 where there are two links to file complaints and
17 through the utility consumer hotline. And that number
18 is 800-772-4636. Thank you.

19 MR. HUELSMANN: Thank you. Another way to
20 remember that number is 800-PSC-INFO, which is how I
21 remember it.

22 Next thing is the Daugherty Resources wants
23 to give a little presentation, I believe.

24 MR. WALLEN: I'm Mike Wallen of Daugherty
25 Resources out of Lexington, Kentucky. We're an oil

1 and natural gas drilling and production company. And
2 we appreciate the commission inviting us over to give
3 some comments on the productive end of natural gas.

4 Secretary Bill Richardson with the United
5 States Secretary of the Department of Energy in 1999
6 said, for a secure energy future, government and
7 private sector decision makers need to be confident
8 that the industry has the capability to meet the
9 significant increases in natural gas demand for the
10 forecasted twenty-first century.

11 As we see natural gas increase, usage
12 increase, the projections for the increase on into the
13 twenty-first century are dramatic. So the industry is
14 going to have to be sure that we're able to meet the
15 capabilities to meet the productive end and also meet
16 the supply end.

17 In the industry view there's no energy
18 crisis in natural gas. Long-term supply of natural
19 gas in this country is not in question. We need to
20 remember that while crude oil is a global issue,
21 natural gas is a North American one. As the LG&E
22 folks said earlier, 87 percent of the natural gas
23 consumed in the United States is produced here. The
24 remaining 13 percent being produced in Canada and
25 Mexico; obviously, mostly in Canada.

1 Obviously, we are under price shock right
2 now. The price of natural gas is higher because of
3 market conditions. The law of supply and demand,
4 however, is working. Price is the symptom right now,
5 not the problem. The problem, as I'll get into, is we
6 haven't been drilling enough in the past few years to
7 meet the growing demand for natural gas in the
8 marketplace.

9 In 1999 the National Petroleum Council
10 projected what they thought the price of natural gas
11 would be on in through 2000 and beyond. As you can
12 see they projected the price of natural gas at the
13 wellhead to be three dollars. Well, obviously, they
14 missed that. And they missed that projection because
15 they underestimated the usage of natural gas.

16 However, if you look back currently with
17 prices being -- this slide might not be very readable
18 on the back with the lights on it -- but if you
19 estimate a price of \$8.80 a thousand, people are
20 paying now less money for natural gas than there were
21 in 1984 and 1985.

22 As you can see, the true price of natural
23 gas for the consumer has decreased dramatically since
24 '84 and '85 and has just now, as you can see the
25 spike, gone back up. And, again, that's a supply and

1 demand issue.

2 Equating those numbers back to 1985 prices
3 through 1999 before the price went back up,
4 residential consumers were paying 30 percent less,
5 commercial customers 37 percent less, industrial and
6 electrical generation 48 percent less. That's equated
7 back to the high price in 1985.

8 There's four market conditions that are
9 controlling the price right now. They're listed on
10 the board and I'll go through each one of those one by
11 one and give some facts behind those -- behind those
12 numbers.

13 The first condition is low levels of
14 drilling activity during the past three years. This
15 should say the past ten years, since the last energy
16 crunch of the late '80s.

17 Here's a chart that will show you the number
18 of wells drilled in the lower 48 states all the back
19 through 1991. As you can see, the number for '91
20 through '99 averaged about 25,000 wells a year being
21 drilled. That's all kinds of wells, oil and gas. You
22 don't see any increase in those. As a matter of fact,
23 you're looking at an overall decrease from '91 to '99
24 of the significant amount of wells. And you've got to
25 remember that during that time period the usage of

1 natural gas has been continuing to increase.

2 If you look at the annual production adds
3 versus the declines -- and we're talking about
4 reserves -- you can see the blue column being the
5 annual decline in the current reserves that we have.
6 The middle column being the production adds with what
7 new has been drilled. And then pay attention to the
8 right column. That shows you the number of drilling
9 rigs that have been running year by year in the United
10 States all the way back to 1990. And you can see that
11 the level of rig activity has been extremely low.
12 1995 there are only 393 rigs running in this country.

13 The Energy Information Agency predicts that
14 if we have 650 drilling rigs running this year 2000
15 estimates will just be able to offset the amount of
16 production -- declines that we've produced with new
17 production. Now currently there's probably over 800
18 drilling rigs running. But when I show you a slide
19 here in a couple of minutes that shows you the
20 projected increase in the demand for natural gas
21 they're going to have to be well over that number of
22 drilling rigs running in this country for us to be
23 able to meet the supply -- or meet the demand.

24 The second condition that's working the
25 market right now is the increase in the demand for

1 natural gas. The National Petroleum Council did a
2 study in 1992 and they also did another follow up
3 study in 1999 where they were trying to project what
4 natural gas demand in the country will be.

5 Now, again, I know the colors are a little
6 hard to see in the back, but from 1990 to the year
7 2000 the lower two lines are what the National
8 Petroleum Council projected that the demand for
9 natural gas would be in this country in trillion cubic
10 feet a year. The light blue line is the actual demand
11 for natural gas in this country over that same period.
12 So you can see how they have been off on the demand
13 side of what they've been projecting. And they've now
14 projected that out on the demand side for natural gas.
15 And as you can see, the demand is going to
16 significantly increase over the next ten years.

17 Here is it year by year, natural gas
18 consumption in the United States in 1986 the
19 consumption was about 17 billion cubic feet a year.
20 Currently the estimate for 2000 is that it will be
21 about 22 billion cubic feet of natural gas demand
22 usage in this country.

23 If you break that demand down into different
24 sectors, who's using the most gas, this chart shows
25 you the break down from electrical generation,

1 industrial, residential, and commercial. As you can
2 see, most sectors have normal increases of two to
3 three percent. But look at the increase in the demand
4 side for electrical generation. That's where the
5 biggest new demand for natural gas is coming from and
6 it has been for the past couple of years, and is
7 projected to continue to grow in that area.

8 If you look at the growth by section,
9 obviously, again, electrical generation is where the
10 biggest new demand for natural gas is coming and will
11 continue to come for the next 10 or 20 years.

12 Now when the National Petroleum Council
13 went through these projections, this is the criteria
14 they used for those that the growth domestic product
15 will grow two and a half percent a year, 140 gigawatts
16 of new power will come on-line by 2015, 70 percent of
17 new gas fuel power projects could switch fuels, no new
18 nuclear facilities will be built, there will be 30
19 gigawatts of nuclear capability, electrical generation
20 capacity up for relicensing, 50 percent will have
21 their license extended, and 50 percent will be
22 retired. In the coal capacity utilization in this
23 country will increase from increase from 64 to 75
24 percent.

25 The third market condition that's affecting

1 gas supply is the reduced short-term deliverability.
2 Here is the -- again, the gas production, just the
3 natural gas production on a year-by-year bar chart.
4 And if you'll look even back through 1994 through 1999
5 the gas production in this country has just remained
6 constant. It's not been increasing to meet demand.

7 The North American natural gas outlook, the
8 domestic production, again, has been flat since 1994.
9 Domestic production will slightly decline in the year
10 2000. The Canadian production growth has been much
11 slower than expected and they're now projecting that
12 we won't be getting as much gas out of Canada as we
13 originally thought we would. And now the focus is now
14 shifting to the demand.

15 The fourth condition that's driving the
16 market is the increase in price coupled with an
17 increase in demand has resulted in low levels of
18 storage. One of the things you've got to remember
19 also about the natural gas being produced in this
20 country is that natural gas is not produced by major
21 companies. Only 27 percent of the natural gas
22 produced in this country is produced by majors. I'm
23 talking the Chevron's and Texaco's and BP, Amoco's, 73
24 percent is produced by small independent companies.
25 Independent producers generally operate solely on

1 the exploration and production segment. And they
2 typically don't refine or process their natural gas.
3 They're just the producers. They range in size from
4 large public companies like Anadarko and Devon to
5 small privately held companies like most of the 200
6 companies that produce natural gas in the State of
7 Kentucky.

8 On a local level, if you look at the State
9 of Kentucky the red bars indicate the number of wells
10 drilled in this state over the past ten years. And as
11 you can see that number has declined significantly.
12 And the yellow bar is amount of natural gas. Kentucky
13 produces about 78 billion cubic feet of natural gas a
14 year. It had produced about as much as it had used up
15 until this year when the natural gas consumption in
16 this state has increased dramatically.

17 This is a chart that shows the natural gas
18 produced in the state in the green bar chart. The red
19 graph indicates the amount of gas consumed.

20 We got this information from the Energy
21 Information Agency in Washington. And I question the
22 amount of gas that they're showing that will be
23 consumed in the year 2000. Obviously, the state is
24 consuming more gas. If they are consuming that much
25 more in the year 2000 than 1999 I don't really know

1 where that extra consumption is going.

2 Gas produced in Kentucky, you equate that to
3 value. There's 78 billion cubic feet generates about
4 160 million dollars a year in revenue for local in
5 producers in the State of Kentucky who have produced
6 natural gas. Obviously, with the price increase, you
7 know, that number will go up.

8 We haven't had a healthy oil and gas
9 industry in this country in about ten years. Since
10 prices have been so low, rigs have been idled, people
11 have -- the skilled workers have found other jobs, we
12 quit refining crude oil in this country basically. We
13 haven't built a new refinery in probably 20 years. So
14 we've lost a lot of our skilled workers.

15 One of the reasons that we haven't been
16 drilling for natural gas in this country over the past
17 six years is we couldn't get adequate financial
18 returns when we did drill. If the producer out there
19 in the field is only getting two dollars in MCF for
20 his gas he can't pay for the well that he's drilling.
21 We've had a hard time getting drilling rigs and
22 keeping those running with the low activity.

23 We need more access to public lands. Not
24 only -- that's not a very big issue in the State of
25 Kentucky because there's not that many public lands.

1 But across the nation that's a big issue. There's a
2 lot of natural gas available on public lands that
3 we're not drilling. And from a productive industry
4 standpoint we don't think regulatory restraints on the
5 price of natural gas is a good thing to get into.

6 We've been through that before in the late
7 '80s with price controls on natural gas. And we got
8 into the regulatory death spiral, which goes from
9 tight supply to a price surge to price caps to less
10 supply because there's more demand. It's a regulated
11 shortages that end of in curtailment.

12 We think there's adequate natural gas out
13 there. We need to drill more of it. And to meet the
14 demand we're going to have to drill more of it. And I
15 appreciate the commission letting me make these
16 comments tonight.

17 MR. HUELSMANN: Thank you. The normal
18 process at this point would be to have closing
19 arguments, but Ms. Raskin asked permission to have her
20 clients speak to the commission briefly. And so
21 therefore, on behalf of the Metro Human Needs Alliance
22 Mr. Keith Valle (phonetic).

23 MR. VALLE: Thank you and I'll just take a
24 moment.

25 MR. HUELSMANN: You need the other mike.

1 MR. VALLE: I am Keith Valle with Metro
2 Human Needs Alliance. There are just two brief things
3 I'd like to follow up hearing comments that were made
4 earlier this evening. We want you to know that we
5 appreciate and value the conversations that we've been
6 able to enter into with Louisville Gas & Electric that
7 will hopefully improve the communication between
8 assistance workers that are providing emergency
9 financial assistance and the utilities call center
10 staff. And we believe that these meetings hold
11 promise.

12 It's important for the commission to
13 understand under those circumstances though, is that
14 we're still trying to effectively manage minimal
15 resources. Last year in this community we spent 1.3
16 million dollars on both monthly subsidy through the
17 ASAP program and through emergency assistance
18 programs. And, obviously, people were still being
19 turned away.

20 It's important to note that these funds are
21 pooled with LiHEAP. People are turned away, one,
22 because agencies run out of funds to use. But people
23 are also turned away because their bills are so large
24 that the resources we have can't touch the bills.

25 So please know that we are, in fact, pooling

1 all of our resources including Winter Help in order to
2 meet the demand that's placed on agencies by folks who
3 come in with these significant needs.

4 For our purposes this evening let me also
5 mention that I've just concluded a term as chair of
6 the Winter Help board. And we were very excited to
7 hear that the utility was going to double its match.
8 And the Community Winter Help Board is also going to
9 significantly increase its development activity this
10 year.

11 But that increase in funding isn't going to
12 begin, again, to touch the need that's being presented
13 by the community. So all of these are necessary and
14 worth the efforts, but they obviously fall short of
15 addressing the present crisis.

16 So where we're at this evening is relying on
17 the Public Service Commission to expand its role in
18 making utility services affordable. And we're asking
19 that the Public Service Commission consider an
20 emergency temporary order to rectify this situation
21 through a universal service fund until we can get
22 legislation in place that institutes it and mandates
23 it. Thank you.

24 MR. HUELSMANN: Thank you, Mr. Valle. On
25 behalf of POWER, Mr. Frank Jones, I believe want to

1 say a few words.

2 MR. JONES: Thank you, Mr. Chairman, members
3 of the commission. I'm Frank Jones. I represent
4 POWER a Kentucky non-profit organization was formed
5 over ten years ago to work for the preservation of
6 utility service for the low-income households. Its
7 members are low-income residential patients -- patrons
8 of LG&E.

9 POWER has intervened in all LG&E rate cases
10 and in the two merger cases over the past ten years in
11 its efforts to lower utility bills and to advocate for
12 programs to assist low-income households and LG&E
13 service record.

14 I'm also a member of KFTC known as
15 Kentuckians for the Commonwealth with about 1,500
16 members all over the state.

17 POWER is a voice of the senior citizens,
18 people on fixed incomes and other low-income LG&E
19 customers. Utility bills have always been a problem
20 for us because they took over 19 percent of our income
21 compared to three percent for the average customer
22 household even before the gas hikes took effect.

23 In 1995 Metro Human Needs Alliance funded
24 the current program for six years for over 1,000
25 families with a five year, 4.5 million dollar

1 settlement it won from LG&E in the Trimble rate case.

2 This program came into being after four
3 children died in a house fire. It came about after
4 the utilities were cut off and candles were used for
5 lighting.

6 In 1995 there was a blind man whose
7 utilities were about to be cut off and he offered them
8 all the money he had, which was \$100. But it was
9 insufficient. They refused it and cut the utilities
10 off. This gentleman tried to maintain himself in that
11 household. But that was that cold winter we had. He
12 froze to death.

13 Many senior citizens have heart trouble,
14 high blood pressure, cancer, and diabetes. They have
15 a medical card, but much of the medicines for treating
16 these are not covered by the medical card. And with a
17 high LG&E bill they don't have the money to pay both.
18 They have to choose which one they will pay. If they
19 pay their utilities they can't buy their medicine.
20 This can be a life or death situation.

21 If you have diabetes and don't take your
22 medicine, you can go into hypoglycosemia or
23 hyperglycosemia. It's up and down and either can
24 cause death or a stroke. High blood the same -- or a
25 heart attack. If you are a cancer patient the caner

1 can metastasize which can lead to death.

2 One should never be forced into having to
3 make this decision -- life or a possible death -- all
4 because of a utility bill and a utility company that
5 is totally insensitive to human needs.

6 I remember a case where I was called to a
7 lady's home -- I got this call after being before your
8 commission up at Frankfort, on the way home I got it -
9 who was bedridden with IV and oxygen going in a
10 sitting position in a hospital type bed. Her
11 utilities were cut off and her bed locked in this
12 position. She could not lie down.

13 I had to run a cord, and I just happen to
14 carry high-tension electric cord, a 50 foot cord as a
15 matter of fact, in the back of my car. I had to run
16 the cord to another apartment just to let her bed
17 down, not to give her continuous electricity.

18 With all the cuts in federal programs that
19 have taken place in order to balance the budget on the
20 backs of the poor, the poor need help. The city
21 doesn't have the money to help. The churches are
22 busting at the seams. No one wants to raise taxes or
23 cut services, which the city or county would have to
24 do in order to help these people, many of whom made
25 contributions when they were productive. But now that

1 they are unable what are we going to do to help them?

2 I'll tell you. Put in a 50-cent line charge
3 per month for each gas and electric meter to fund the
4 co-payment program for low-income people and for
5 emergency assistance so that people don't have their
6 heat turned off this winter when they are unable to
7 pay these much higher bills.

8 The money can go to fund ASAP, which is All
9 Season Assurance Plan, and other programs so that the
10 people would have -- would then have utilities year
11 round and be able to take their medication.

12 Public Service Commission, you are the
13 authority. You must be the watchdog to see that poor
14 and the senior citizens who are at the stage of their
15 life can't help themselves also have the major life
16 service. They only have you, the Public Service
17 Commission staff and organization.

18 It's people like us who give their time and
19 knowledge freely trying to help. I hope you don't let
20 the people down in favor of the big business whose
21 CEO's are paid millions while the poor can't afford
22 their product and their medication. Many people end
23 up homeless all because of their inability to pay
24 their utility bills or to get help. I thank you for
25 your time.

1 MR. HUELSMANN: Thank you, Mr. Jones. We
2 need to take a five-minute break to change the tape.
3 Just five minutes.

4 (OFF THE RECORD)

5 MR. HUELSMANN: We need to have the next
6 part of the hearing and that's the part on closing
7 statements by the attorneys for the utilities,
8 intervening parties, and the Public Service
9 Commission.

10 The first one we'd like to call on is the
11 Attorney General's Office, Ann Cheuvront for a brief
12 closing statement, please.

13 MS. CHEUVRONT: Thank you. For the fourth
14 time, thank you for the opportunity. It is nice to be
15 reassured that absent some unforeseen circumstance
16 beyond the control of the utility that the customers
17 in LG&E territory will receive their gas and that the
18 utility is willing to work with their customers to see
19 that they stay on the system. I hope that stays true.

20 It is also nice to hear the concerns of
21 others. While we sympathize with their concerns we
22 agree what you held in your recent LG&E order that
23 this type of a system -- it is our position that the
24 PSC does not currently have the legal authority to
25 require any natural gas customers in Kentucky to pay

1 an additional charge each month to be used for low-
2 income assistance program.

3 Earlier this year the Kentucky General
4 Assembly considered legislation which would have given
5 the PSC the authority to add such a charge to
6 consumer's bills. This legislation did not pass. We
7 do not think the PSC can impose an additional charge
8 on residential consumer's bills unless it has been
9 authorized by legislation. As LG&E stated, we feel
10 that this authority would also go to any kind of
11 emergency order.

12 While we appreciate the need for energy
13 assistance to low-income families, we would note that
14 there is an existing program to help low-income
15 families with their energy bills. Consideration
16 should be given to use the existing state and federal
17 resources to increase funding for LiHEAP before a
18 decision to make -- to mandate new fees for consumers
19 who will be experiencing higher natural gas prices.
20 We do not think you need to be increasing already
21 increasing rates. Thank you.

22 MR. HUELSMANN: Thank you. Ms. Raskin?

23 MS. RASKIN: Thank you. The end of a long
24 evening and I appreciate the opportunity to be here.
25 My clients appreciate the opportunity for speaking

1 themselves through their own voices.

2 You've heard their voices and you've heard
3 voices from many spectrums of the community tonight.
4 You've heard them tell you how badly this 70 percent
5 increase in gas bills -- and that's a cumulative
6 increase, most of which is the commodity but there's
7 still the base charge, service charge -- how badly
8 this increase will hurt people this winter.

9 It will hurt those already in financial
10 trouble. It will hurt those who are on the edge. And
11 will hurt many people who thought they were making it.
12 I won't repeat the details.

13 Nobody should go without heat for even one
14 day in the winter. My furnace went out once years ago
15 for 24 hours and it was miserable. And I was young,
16 there were no babies in my home, there were no old
17 folks in my home, and I was uncomfortable. Discomfort
18 is one thing, but for babies and for old folks it's
19 more than that. It's a serious health issue.

20 Bills, gas bills are going to increase over
21 \$300 this winter. It's not just going to be over 12
22 months. That's in contrast to maybe, if people are
23 lucky enough to get LiHEAP, \$15 or \$20 more from
24 LiHEAP. That won't save their heat.

25 On the other hand, a one dollar a line

1 charge which goes to a universal service fund for a
2 subsidy for co-payment for emergency assistance, for
3 weatherization, it won't send anyone over the edge,
4 especially not when you're measuring it against \$300.

5 Cumulatively, however, it will make the
6 difference for thousands of Kentucky households. It
7 will keep people at home and out of those emergency
8 shelters that the State Department of Natural Energy
9 talked about.

10 Other state Public Service Commissions have
11 established universal service funds without
12 legislation. We will continue our talks with LG&E.
13 We will talk with the Attorney General's Office. But
14 we urge you to issue an emergency order establishing
15 a universal service fund until legislation making this
16 permanent part of our utility services can be passed.
17 Thank you very much.

18 MR. HUELSMANN: Thank you, Ms. Raskin. Does
19 the Public Service Commission have any closing
20 statements?

21 MS. MITCHELL: No, sir.

22 MR. HUELSMANN: Mr. Brooks, on behalf of
23 LG&E?

24 MR. BROOKS: Mr. Chairman, the company would
25 like its closing statement to be given by Mr. Blake

1 from the panel, if that meets with your approval.

2 MR. HUELSMANN: Fine.

3 MR. BLAKE: Gary Blake. I would just like
4 to conclude in saying that this has been a very
5 worthwhile hearing. We applaud the commission for the
6 attention that has been given this issue. We do feel
7 like it is deserved.

8 Compliments to all of those who presented.
9 I think their points were eloquently and effectively
10 communicated and they spoke from their hearts. I
11 don't think anybody can walk away this evening without
12 acknowledging that there is, obviously, the potential
13 for a significant impact on those in our community
14 that can't afford the impacts of the increase.

15 I think we can end though by reiterating
16 what has been said. And while we can't say that the
17 efforts that LG&E has proposed will meet those needs.
18 We can say that without the community, the commission,
19 the utilities, the consumers coming together we will
20 not meet this challenge.

21 So we continue to urge that we all come
22 together. The Winter Help proposal is something that
23 we feel like has great value and will help. We also
24 continue to encourage customers to communicate with us
25 promptly when they do have issues. And, again, thank

1 you.

2 MR. HUELSMANN: I'm entitled to make some
3 closing statements, but they'll be very brief.

4 I want to thank each and every one of you
5 for coming and expressing your thoughts. In
6 particular the ones that have already left. If you
7 see them tell them we do thank them.

8 This is a difficult decision, a difficult
9 problem that we face. And what I'd like to make my
10 closing as simple as this, if we all work together we
11 can make Kentucky a better place to live.

12 So that will conclude this part of the
13 hearing. We'll stand in recess until Thursday when
14 we'll be in Owensboro. Thank you all for coming.

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